

**Item 1: Cover Page**

Roberts, Glore & Co.  
Form ADV Part 2A:  
Firm Brochure



February 10, 2014

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This brochure provides information about the qualifications and business practices of Roberts, Glore & Co. If you have any questions about the contents of this brochure, please contact us toll-free at 800.627.8889 or by e-mail at [robglore@lasalle-st.com](mailto:robglore@lasalle-st.com). 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.

Additional information about Roberts, Glore & Co. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Roberts, Glore & Co. is an SEC-registered investment adviser. Registration does not imply a certain level of skill or training.

## Item 2: Material Changes

On July 28, 2010, the SEC adopted a number of amendments to Form ADV, the disclosure document that we provide to clients as required by SEC rules. This brochure has been prepared in accordance with the SEC's amendments to Form ADV. Consequently, this brochure is materially different in structure from our brochures from previous years. Moreover, this brochure may provide certain new information that our previous brochures did not require.

This Item summarizes specific material changes that are made to our brochure. Pursuant to SEC Rules, we will ensure that you receive a summary of any such changes to this and subsequent brochures within 120 days of the close of the calendar year. We may provide other disclosure information about material changes as necessary.

At any time, we will provide a copy of our brochure free of charge upon request.

### *Summary of Material Changes*

Items 10 and 12 (*Other Financial Industry Activities and Affiliations and Brokerage Practices*, respectively) of our Form ADV Part 2A dated March 24, 2011 stated that, prior to May 16, 2007, Roberts, Glore & Co. was a partially owned (20%) subsidiary of McDermott-LaSalle, Inc. This statement was inaccurate, since Roberts, Glore & Co. did not function operationally as a subsidiary of McDermott-LaSalle, Inc. and our management was not directed or influenced by McDermott-LaSalle, Inc. Items 10 and 12 have been amended to state that, prior to May 16, 2007, Roberts, Glore & Co. was partially owned (20%) by McDermott-LaSalle, Inc.

Item 11 (*Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading*) of our Form ADV Part 2A dated April 6, 2011 was expanded to clarify our policies and procedures pertaining to employee limit orders. The relevant section now reads (italics indicate change): "Employees may place good-until-cancelled open limit orders for their own or related accounts in non-exempt covered securities for which good-until-cancelled open limit orders have been placed for clients, provided that: (1) appropriate, documented pre-clearance approval has been obtained from the Chief Compliance Officer (in keeping with the preceding), and (2) employees' limit order prices are consistent with, or less favorable than, clients' discretionary and/or solicited open limit prices. Note, however, that if such securities are exempted, pre-clearance approval from the Chief Compliance Officer is not required *and the foregoing provisions need not apply.*"

Item 16 (*Investment Discretion*) of our Form ADV Part 2A dated April 6, 2011 was expanded to clarify our disclosures regarding potential differences in execution prices for client trades. The relevant section now reads (italics indicate change): "Clients who grant us investment discretion may receive more or less favorable execution prices than those received by other clients (whether discretionary or non-discretionary) for trades involving the same security, depending on the timing of individual clients' portfolio reviews *or the nature of client instruction (as when some clients communicate a desire to be more or less heavily invested in a specific security or asset class than other clients)*. Also, clients who have not granted us investment discretion may receive more or less favorable execution prices than those received by discretionary clients for trades involving the same security, depending on the timing of non-discretionary clients' approval of our investment recommendations *or the nature of client instruction (as above).*"

Item 11 (*Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading*) of our Form ADV Part 2A dated May 3, 2011 was revised to reflect an expansion of pre-clearance exemptions in our Code of Ethics for employee transactions in certain securities, since the impact of trades in those securities upon the broader financial markets is deemed to be negligible. The securities include: debt obligations of U.S. municipal or state government issuers; debt obligations of U.S. agencies (such as Fannie Mae, Freddie Mac, Tennessee Valley Authority, etc.); and debt obligations of corporate issuers whose market capitalization exceeds \$1 billion.

Item 12 (*Brokerage Practices*) of our Form ADV Part 2A dated March 12, 2012 was revised to include a discussion of our policy for trade errors in client accounts. The discussion includes the following statement: "If an error is the responsibility of RGCO, the affected client's transaction will be corrected and any gain or loss resulting from an

inaccurate or erroneous order will be borne by RGCO.” Moreover, references to soft dollar benefits were removed, since we are not party to soft dollar arrangements.

Item 5 (*Fees and Compensation*) of our Form ADV Part 2A dated March 26, 2012 was revised to include the following statement: “Moreover, RGCO occasionally provides broad-based financial planning advice, touching on such matters as estate, educational, and/or retirement planning, intergenerational wealth transfer, insurance, charitable giving, asset and liability considerations, etc. Fees for financial planning advice are negotiable and are dependent on the complexity of the case in question. RGCO also provides date-of-death valuations and asset division calculations in cases of estate resolutions. Fees for such services are negotiable.”

Item 4 (*Advisory Business*) of our Form ADV Part 2A dated February 28, 2013 was revised to include the following statement: “Wrap fee arrangements may also be entered into with other clients at the discretion of RGCO’s portfolio managers.”

Item 13 (*Review of Accounts*) of our Form ADV Part 2A dated February 28, 2013 was revised to include the following statement: “Client appraisal reports are provided for information only and in no way replace official account statements provided by our clients’ custodian(s). Moreover, some asset values shown on client appraisal reports cannot be verified and should not be relied upon for the determination of fair market value.”

Items 5 (*Fees and Compensation*), 10 (*Other Financial Industry Activities and Affiliations*), and 12 (*Brokerage Practices*) of our Form ADV Part 2A dated February 28, 2013 were revised to include the following statement: “Clients who maintain custody with NFS via LSS as introducing broker may, at their discretion, request margin loans drawn from their regular brokerage accounts. (In a margin loan, an account holder borrows funds using his or her brokerage assets as collateral. Such loans incur interest charges and may also require the account holder to post additional collateral if the value of securities in his or her brokerage account declines.) In such instances, RGCO may share modestly in interest charges paid to NFS. As a general rule, RGCO does not recommend the use of margin loans for our clients.”

Item 10 (*Other Financial Industry Activities and Affiliations*) of our Form ADV Part 2A dated February 28, 2013 was revised to reflect the fact that both Jim L. Calaway and Christopher J. Ciupke are registered to sell life insurance products, including annuities, via LSS.

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## Item 4: Advisory Business

Roberts, Glore & Co. (hereafter “RGCO,” “our firm,” or “we”) provides investment advisory and brokerage services to clients through either a discretionary or a non-discretionary relationship. RGCO was founded in 1984. Our principal owners are Clemens P. Ciupke and Jim L. Calaway.

RGCO’s advisory services consist of the evaluation and management of our clients’ investment assets in light of each client’s long-term investment goals. As part of this process, we attempt to assess each client’s risk tolerance by taking into account several factors, including age, income needs, and willingness or ability to sustain investment losses. In view of each client’s risk tolerance and long-term investment goals, we allocate our clients’ investments among various asset classes (including cash equivalents, bonds, stocks, and other assets) with a view to maintaining an appropriate balance of potential principal growth and income generation. Within each asset class, we select or recommend individual securities that we feel are reasonably valued. In the vast majority of cases, our investment advice is limited to publicly traded securities, including common stocks, bonds, mutual funds, closed-end funds, and exchange-traded funds or notes, among others. In certain limited cases, we may recommend or monitor non-publicly-traded securities, such as limited partnership interests.

We tailor our advisory services to the individual needs of our clients. Moreover, our clients may impose restrictions on investing in certain securities or types of securities. For instance, clients may request that we avoid investments in certain asset classes or in the securities of certain companies or companies within certain sectors.

In certain limited cases, RGCO provides investment advice in the context of a wrap fee program (i.e., a program in which all investment advisory and brokerage services are provided for a single, all-encompassing fee). As part of RGCO’s acquisition of several advisory clients whose accounts were formerly managed by Janus Rappaport Associates, Inc., a Chicago-based investment advisory firm whose business was wound down in 2004, we have agreed to perpetuate pre-existing wrap fee arrangements for such clients. Furthermore, we have made wrap fee arrangements available to a small number of accounts managed on a Delivery vs. Payment basis, as part of a broader consultative arrangement with those accounts’ family office. Wrap fee arrangements may also be entered into with other clients at the discretion of RGCO’s portfolio managers. These wrap fee arrangements do not involve participation in wrap fee programs sponsored by third parties, and RGCO receives the entirety of the wrap fee. Aside from the structure of the wrap fee arrangement, there is no material difference between how we manage wrap fee accounts and how we manage our other clients’ accounts. Further information regarding RGCO’s wrap fee program is provided in Appendix 1 of Form ADV Part 2A, which is available upon request.

As of December 31, 2014, RGCO managed \$380,092,412 of client assets on a discretionary basis and \$70,536,892 of client assets on a non-discretionary basis.

## Item 5: Fees and Compensation

As compensation for our advisory services, RGCO generally charges fees based upon our clients’ assets under our management. As of the date of this writing, fees are generally based upon the following schedule:

Asset Class	Annual Fee as a Percent of Asset Value
Money market mutual funds	From 0.00% to 0.28%
Open-end mutual funds, closed-end funds, and exchange-traded funds or notes	From 0.20% to 0.28%
Non-publicly traded or alternative assets	From 0.20% to 0.28%
Non-convertible fixed income holdings	From 0.20% to 0.48%
Common and preferred stocks, convertible fixed income, and warrants or options	From 0.44% to 1.50%

Fees are subject to negotiation, especially when considering asset mix and portfolio size. Generally, larger portfolios are subject to lower fee rates overall than smaller portfolios with similar asset allocations. Fees for non-discretionary accounts are generally higher than shown above, and fees for portfolios with assets under management of \$10 million or more may be lower than shown above. Also, certain other accounts are managed for fees lower than the above. Reasons for such differences vary but may include a pre-existing relationship under a prior advisory fee agreement, charitable institution status, partial management requirements, etc.

The manner in which we charge advisory fees is established in a client's written fee agreement with RGCO. Clients may elect either to be billed directly for fees incurred or to authorize RGCO to debit fees from client assets. We generally bill fees on a quarterly basis in arrears, although clients may elect to be billed on an other-than-quarterly basis or in advance (though not more than six months in advance).

A client's fee agreement is continuous but may be canceled with 30 days' notice by either party. For clients who are billed in advance, in the event of cancellation the 30-day notice applies, and for the period remaining a pro-rata to the day is made of the unearned fee, which is then returned to the client.

In addition to ongoing investment advisory services, RGCO occasionally offers one-time or periodic consultations. Fees for such consultations are negotiable. Moreover, RGCO occasionally provides broad-based financial planning advice, touching on such matters as estate, educational, and/or retirement planning, intergenerational wealth transfer, insurance, charitable giving, asset and liability considerations, etc. Fees for financial planning advice are negotiable and are dependent on the complexity of the case in question. RGCO also provides date-of-death valuations and asset division calculations in cases of estate resolutions. Fees for such services are negotiable.

Above and beyond any investment advisory fees paid to RGCO, clients may incur certain charges imposed by custodians, third party investment managers, and other third parties. Such charges might include fees charged by managers of non-publicly-traded or alternative assets, custodial fees, inactivity fees, retirement account administration fees, transfer or other taxes, wire transfer or electronic funds transfer fees, and other fees or taxes imposed on brokerage accounts and securities transactions. Mutual funds, closed-end funds, and exchange-traded funds or notes also charge internal management fees, which are disclosed in a fund's prospectus. RGCO does not generally receive any portion of these charges.

On rare occasions, RGCO may serve in an offeree representative, agent or similar capacity in connection with private placements (i.e., securities that are not generally publicly traded and may involve certain minimum income or net worth requirements for potential investors). In such cases, RGCO may receive compensation from the issuer of the security in question in exchange for facilitating sales of the security to clients of RGCO. This compensation may take the form of one-time or trailing selling concessions or participation in fees or revenues generated by the security's issuer or investment manager. Any such compensation is above and beyond any advisory fees that RGCO may charge for managing the security as part of a client's investment portfolio.

Portfolio managers of RGCO are also registered representatives of LaSalle St. Securities, LLC ("LSS"), a privately owned broker-dealer based in the Chicago area. As registered representatives of LSS, portfolio managers of RGCO receive a portion of the commissions, markups, selling concessions, or other compensation generated by the purchase and sale of securities in the accounts of our clients who maintain custody with National Financial Services, LLC ("NFS") via LSS as introducing broker, or who maintain custody elsewhere but allow us to execute trades for their portfolios on a Delivery vs. Payment basis. (In a Delivery vs. Payment arrangement, we are authorized to purchase or sell securities via LSS for clients who maintain custody of their portfolios outside of NFS. Delivery of any securities we buy or sell on the clients' behalf, and net funds owed or proceeds received, is facilitated by NFS in cooperation with the clients' custodians.)

Clients who maintain custody with NFS via LSS as introducing broker may, at their discretion, request margin loans drawn from their regular brokerage accounts. (In a margin loan, an account holder borrows funds using his or her brokerage assets as collateral. Such loans incur interest charges and may also require the account holder to post additional collateral if the value of securities in his or her brokerage account declines.) In such instances, RGCO may share modestly in interest charges paid to NFS. As a general rule, RGCO does not recommend the use of margin loans for our clients.

The vast majority of our clients hold their accounts with NFS or allow us to execute trades for their accounts (if held elsewhere) on a Delivery vs. Payment basis, and thus we share in the commissions or other compensation generated by trades in most of our clients' accounts. Moreover, we may receive asset-based sales charges (such as front- or back-end loads) or 12b-1 fees from the purchase or sale of mutual funds for our clients who hold their accounts with NFS. These forms of compensation present a conflict of interest for us and our portfolio managers to the extent that they give us a financial incentive to recommend or execute purchases or sales in a client's account based on the compensation we receive, rather than on the client's best interests.

To address this conflict of interest, we monitor trade activity in our clients' accounts in an effort to identify trading that is inconsistent with a client's investment objectives, risk tolerance, or account restrictions, as well as to assess the appropriateness of commission charges and the accuracy of execution. Specifically, all trades executed by representatives of RGCO on behalf of clients are reviewed independently by at least two principals of the firm. In most cases, these reviews occur on the business day immediately following trade execution. Moreover, when we purchase or recommend open-end mutual funds for our clients, we exclusively make use of no-load funds (i.e., mutual funds that do not incur charges, or "loads", upon purchase or sale), unless directed otherwise by the client.

In addition, clients are encouraged to monitor trade activity in their own accounts by reviewing information provided to them independently of RGCO by their custodian. This information includes written trade confirmations mailed directly to clients (generally within two business days of execution) and account statements mailed directly to clients no less frequently than quarterly.

Clients have the option to purchase securities or investment products that we recommend through other brokers or agents who are not associated with us. Clients who maintain custody with a custodian other than NFS and who have not arranged for trade execution on a Delivery vs. Payment basis will incur brokerage and other transaction costs through their designated broker. Where a client has directed the use of a broker, in whole or in part, RGCO may not be able to negotiate commission rates or otherwise obtain the most favorable execution of client transactions.

Commission schedules for clients who maintain custody with NFS or who have arranged for trade execution on a Delivery vs. Payment basis may vary from one client to another. In some cases, the amount of commission paid may be determined in relation to the amount of advisory fees paid (i.e., in some cases a higher advisory fee may result in a lower commission rate or vice-versa). In other cases, commission rates may be determined independently of the amount of advisory fees paid. In all cases, these commission rates will be used for all trades (block trades, individual trades, etc.) but may be lowered at the portfolio managers' discretion.

For further details regarding our brokerage practices and potential conflicts of interest, please see Items 10 and 12 below.

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

We do not charge or accept performance-based fees (i.e., fees based on a share of capital gains or capital appreciation of a client's assets) for any accounts under our management.

## **Item 7: Types of Clients**

We provide investment advice to individuals, high-net-worth individuals, trusts, family offices, corporate pensions or profit-sharing plans, and non-profit or charitable organizations. Our minimum new account size is generally \$250,000 for clients who are not related to existing clients, though we may make exceptions due to pre-existing relationships or other reasons as determined by our portfolio managers.

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

Our investment strategy involves the construction of customized investment portfolios for our clients that reflect each client's long-term investment goals, risk tolerance, and income needs, among other considerations. In pursuit of this aim, we generally attempt to purchase securities whose market prices are reasonable in comparison to our estimate of their fair value. Moreover, in most cases we allocate our clients' investments among various types of asset classes, including common stocks, bonds, cash equivalents, and alternative assets. We may also make use of open-end mutual funds, closed-end funds, and exchange-traded funds or notes that invest in these asset classes. We do not employ trading strategies that call for high frequency trading or high levels of turnover.

In assessing common stock investments, our goal is to find securities that we feel are reasonably valued and offer the potential for future growth. In so doing, we place our primary emphasis on the fundamental analysis of an issuer's financial statements (particularly cash flow statements and balance sheets), together with measurements of profitability (such as return on equity, return on assets, or return on invested capital) and historical financial performance (such as earnings and revenue growth). We also aim to invest in issuers who we feel have sound competitive advantages vis-à-vis their peers. Our fundamental analysis may be supplemented by technical considerations (such as a review of past and present stock price behavior) and our views on broader financial market conditions. We may invest in the common stocks of issuers of any market capitalization, though the bulk of our research is generally devoted to issuers that would be considered mid- or large-capitalization. We may also invest in the common stocks of foreign issuers, though the majority of our investments are in U.S. common stocks. We generally aim to reduce or sell a common stock if we feel its market price exceeds our estimate of its fair value, if the issuer's financial performance shows signs of deteriorating or falling short of our expectations, or if we find more attractive investment opportunities in other securities and must raise funds to pursue them.

In assessing bond or other fixed income investments, our goal is to find securities that we feel offer an appropriate balance between safety of principal and income generation. In evaluating corporate bond issuers, we generally rely upon our own analysis of an issuer's financial health to determine a bond's attractiveness, using metrics similar to those we would use to assess an issuer's common stock. For corporate, municipal, sovereign, and other issuers (including government-sponsored-entities), we also reference third-party credit ratings to aid in our assessment of an issuer's creditworthiness. We may purchase bonds or other fixed income instruments that are callable (i.e., that can be redeemed prior to maturity at the discretion of the issuer), that are convertible into common stock, that have an adjustable interest rate, or that are indexed to inflation. We may also purchase bonds of foreign issuers (including sovereign governments or foreign corporations) that are denominated in currencies other than the U.S. dollar, particularly if we feel that a foreign issuer's currency is attractively valued vis-à-vis the U.S. dollar. In addition to fundamental, credit, or currency analysis, we take into account broader financial market data (such as interest rate levels or stages in credit cycles) when evaluating bond issues. We generally purchase individual bonds with a view to holding them until maturity. However, we may reduce or sell a bond holding if we feel that the issuer's financial performance shows signs of deteriorating or falling short of our expectations, if we feel a bond's market price exceeds our estimate of its fair value, or if we find more attractive investment opportunities in other securities and must raise funds to pursue them.

In assessing alternative investments, our goal is to find securities that offer the potential for capital appreciation and/or income generation and whose prices historically have not tended to track closely with movements in common stock or bond prices. Such alternative investments may involve exposure to timber, real estate, commodities, currencies, exchange-traded derivatives (such as put or call options), or other assets. In most cases, we prefer to allocate a relatively modest portion of our clients' investment portfolios (generally not more than 15% unless directed otherwise by a client) to alternative assets as a complement to their common stock, bond, cash equivalent, or related holdings.

In assessing open-end mutual funds, closed-end funds, and exchange-traded funds or notes that invest in the asset classes discussed above, our goal is to find securities that have reasonable expense ratios and offer broad diversification (unless the desired asset class is a focused one, such as a single commodity or a single currency). We aim to make use of such securities when we feel our ability to add value through active management is limited. This limitation may arise if liquid markets in certain asset classes are not readily accessible by other means, if we feel that our expertise in a certain asset class is limited, or if a client's account size would make it impractical or cost-prohibitive to obtain what we feel would be an appropriate degree of diversification by using individual common



stocks, bonds, or other securities to gain exposure to an asset class. In most cases, the open-end mutual funds, exchange-traded funds, or exchange-traded notes that we buy or recommend for clients are designed to track indices developed by third parties. In some cases, we may buy or recommend closed-end funds that involve active management of a basket of securities rather than passive index-tracking, particularly if a fund's shares sell at a discount to their net asset value. We do not make use of open-end mutual funds that carry loads for purchasing or selling shares, unless directed otherwise by a client.

Investing in securities, including but not limited to the securities discussed above, involves risk of loss that clients should be prepared to bear. Our overarching strategy of constructing customized investment portfolios for our clients is also subject to risks, including:

*Active Manager Risk.* The individual securities that we recommend or purchase for our clients, or any shifts in asset allocation that we recommend or undertake for our clients, may cause their portfolios to lag other investments, passive benchmark indices, or the results of other investment managers who pursue a strategy similar to ours. Our assessment of the fair value of a particular security may be incorrect, and we may not buy or sell a security at the most attractive price possible. When we buy a security at a market price we deem reasonable relative to our estimate of its fair value, the security's price may decline or may never reach or exceed our estimate of fair value. When we sell a security, its market price may rise, perhaps substantially. As with any investment strategy, we cannot guarantee that we will achieve our own or our clients' investment goals, and our past performance is not a guarantee of future results.

*Correlation Risk.* For many clients, we aim to construct portfolios that are diversified across asset classes and/or individual securities. In so doing, we attempt to reduce the likelihood that adverse developments in any single asset class or security will have a disproportionate impact on the value of other asset classes or securities held in our clients' portfolios. However, if financial markets experience structural shifts or other stresses, asset classes or securities that historically have not tended to exhibit similar behavior may begin to track more closely with each other, thereby reducing or eliminating the potential benefits of diversification. Regardless of the financial market environment, diversification cannot eliminate the risk of loss.

*Concentration Risk.* Although we generally aim to construct portfolios that are diversified across asset classes and/or individual securities, our clients' portfolios may exhibit more concentration in particular securities, sectors, or asset classes than passive benchmark indices or portfolios managed by other investment managers. Also, some clients may request a greater degree of concentration in particular securities, sectors, or asset classes than other clients. Consequently, our clients may be subject to the risk that a change in the price of a particular security may have a significant impact, either positive or negative, on the value of their portfolios.

In addition to the risks to our investment strategy noted above, the types of securities in which we invest for our clients are subject to certain risks.

For common stocks, these risks may include:

*Stock market risk.* This is the risk that stock prices in general may fall. Stock markets may experience protracted periods of generally falling prices or abrupt shocks or spikes in volatility.

*Foreign country risk.* This is the risk that events (such as social or political unrest, war, natural disasters, economic hardship, etc.) in foreign countries or regions may adversely affect the value of securities issued by corporations or governments in those countries or regions. Foreign country risk may be especially pronounced in emerging markets.

*Foreign currency risk.* This is the risk that a foreign investment denominated in a currency other than the U.S. dollar may decline in value as measured in U.S. dollars due to unfavorable changes in currency exchange rates. Currency risk may be especially pronounced in emerging markets.

*Emerging markets risk.* This is the risk that the common stocks of issuers located in emerging or developing markets (i.e., countries or regions whose level of economic development or industrialization is generally considered less advanced than in major economies, such as those of the West or Japan) may be significantly less liquid or more volatile than the common stocks of issuers located in more developed markets.

*Small- or mid-capitalization risk.* This is the risk that the common stocks of smaller or mid-sized issuers may be significantly less liquid or more volatile than common stocks of larger issuers. Generally, smaller or mid-sized firms are more narrowly focused, less well-entrenched, and more sensitive to economic downturns than are larger firms. Consequently, their common stocks may experience larger or more frequent price swings than those of larger firms.

For bonds and other fixed income instruments, risks may include:

*Interest rate risk.* This is the risk that bond prices in general may fall due to rising interest rates. In most cases, bond prices fall when interest rates rise, and vice-versa.

*Reinvestment risk.* This is the risk that bond investors' interest income may decline during periods of falling interest rates. As existing bonds are redeemed or called, bond investors who seek to reinvest the proceeds may be forced to do so at lower interest rates than were previously available.

*Credit risk.* This is the risk that a bond issuer may fail to pay interest or principal in a timely manner, or at all. Moreover, negative perceptions of an issuer may call into question an issuer's ability to meet its contractual payment obligations, which may cause the price of an issuer's bonds to fall.

*Call risk.* This is the risk that, during periods of falling interest rates, issuers of callable bonds may elect to call or repay their bonds prior to their maturity dates. In such cases, bond investors may lose any appreciation above the affected bond's call price and may be forced to reinvest the proceeds at lower interest rates than were previously available. For mortgage-backed securities, this risk is called *prepayment risk*.

*Foreign country risk.* This is the risk that events (such as social or political unrest, war, natural disasters, economic hardship, etc.) in foreign countries or regions may adversely affect on the value of securities issued by corporations or governments in those countries or regions. Foreign country risk may be especially pronounced in emerging markets.

*Foreign currency risk.* This is the risk that a foreign investment denominated in a currency other than the U.S. dollar may decline in value as measured in U.S. dollars due to unfavorable changes in currency exchange rates. Currency risk may be especially pronounced in emerging markets.

For alternative investments, risks may include:

*Illiquidity risk.* This is the risk that a ready market may not exist for an investment, or that the market for an investment may be disrupted or subject to abrupt changes. In such markets, a holder seeking to sell an alternative investment may not be able to find a willing buyer or may be forced to accept a significantly lower price than would otherwise be the case.

*Valuation risk.* This is the risk that the fair market value of an alternative investment may not be readily discovered. In some cases, an investment's value may be estimated based upon projections of future profits or cash flows, which may be subject to significant changes over time and may not be realized.

*Manager risk.* This is the risk that an alternative investment overseen by a third-party manager (such as a general partner for an investment in limited partnership units) may suffer due to poor investment decisions on the part of the manager.

*Counterparty risk.* This is the risk that an investment involving a contractual commitment with another party (such as a swap or structured note) may lose value if the counterparty fails to meet its contractual obligations in a timely manner, or at all.

For open-end mutual funds, closed-end funds, and exchange-traded funds or notes, risks may include:

*Index tracking risk.* This is the risk that an investment vehicle that tracks a passive index may fail to match the investment performance of the index due to sampling errors, trading costs, or manager error, among other reasons.

*Manager risk.* This is the risk that the securities selected by an investment vehicle's manager may cause the vehicle's performance to lag relevant benchmark indices or the results of other investment managers who pursue a similar strategy.

*Secondary market risk.* This is the risk that the market price for an investment vehicle may vary significantly from its underlying net asset value. Although the market prices for shares of exchange-traded funds and exchange-traded notes are generally expected to approximate their net asset value, there is no guarantee that they will do so. Moreover, shares in closed-end funds may trade in the market at a premium or a discount to their net asset value for prolonged periods of time, and may experience sudden or significant swings in their market price relative to their net asset value.

*Leverage risk.* This is the risk that an investment vehicle employing leverage (i.e., that borrows funds for investment in an attempt to improve returns) may suffer sudden or significant swings in price due to credit strains, shifts in investor confidence, or abrupt market disruptions. This risk may be especially pronounced in closed-end funds that employ leverage.

*Credit risk.* An exchange-traded note is a credit instrument that generally does not pay interest and whose principal value tracks the value of an underlying index, less an expense ratio. Generally, exchange-traded notes have finite lives and are redeemed after a period of several years or more. Upon redemption, the issuer of an exchange-traded note agrees to pay to holders the original face value of the note plus (or minus) any accumulated gain (or loss) in the underlying index, less expenses. Thus, exchange-traded notes are subject to credit risk, or the risk that an issuer may fail to redeem the principal value of the note as stipulated by the note's prospectus, or at all. Moreover, negative perceptions of an issuer may call into question an issuer's ability to meet its contractual payment obligations, which may cause the price of an issuer's exchange-traded notes to fall.

The aforementioned discussion of risks is not exhaustive. Further information about the risks of individual securities may be found in their offering circulars or prospectuses (if applicable), their issuers' financial filings with the SEC (if applicable), or other disclosures or investor documents.

## Item 9: Disciplinary Information

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. As of the date of this writing, we have no information applicable to this Item.

## Item 10: Other Financial Industry Activities and Affiliations

The portfolio managers of RGCO (Clemens P. Ciupke, Jim L. Calaway, Byron Smythe, and Christopher J. Ciupke) are also registered representatives of LaSalle St. Securities, LLC ("LSS"), a privately owned broker-dealer based in the Chicago area. As registered representatives of LSS, portfolio managers of RGCO receive a portion of the commissions, markups, selling concessions, or other compensation generated by the purchase and sale of securities in the accounts of our clients who maintain custody with National Financial Services, LLC ("NFS") via LSS as introducing broker, or who maintain custody elsewhere but allow us to execute trades for their portfolios on a Delivery vs. Payment basis. (In a Delivery vs. Payment arrangement, we are authorized to purchase or sell securities via LSS for clients who maintain custody of their portfolios outside of NFS. Delivery of any securities we buy or sell on the clients' behalf, and net funds owed or proceeds received, is facilitated by NFS in cooperation with the clients' custodians.)

Clients who maintain custody with NFS via LSS as introducing broker may, at their discretion, request margin loans drawn from their regular brokerage accounts. (In a margin loan, an account holder borrows funds using his or her

brokerage assets as collateral. Such loans incur interest charges and may also require the account holder to post additional collateral if the value of securities in his or her brokerage account declines.) In such instances, RGCO may share modestly in interest charges paid to NFS. As a general rule, RGCO does not recommend the use of margin loans for our clients.

The vast majority of our clients hold their accounts with NFS or allow us to execute trades for their accounts (if held elsewhere) on a Delivery vs. Payment basis, and thus we share in the commissions or other compensation generated by trades in most of our clients' accounts. Moreover, we may receive asset-based sales charges (such as front- or back-end loads) or 12b-1 fees from the purchase or sale of mutual funds for our clients who hold their accounts with NFS. These forms of compensation present a conflict of interest for us and our portfolio managers to the extent that they give us a financial incentive to recommend or execute purchases or sales in a client's account based on the compensation we receive, rather than on the client's best interests.

Furthermore, prior to May 16, 2007, RGCO was partially owned (20%) by McDermott-LaSalle, Inc., a holding company owned by John W. McDermott, who also owns LSS. On May 16, 2007, Clemens Ciupke and Jim Calaway executed a purchase agreement with Mr. McDermott, whereby Mr. McDermott sold to Messrs. Ciupke and Calaway his non-controlling stake in RGCO. Mr. McDermott, McDermott-LaSalle, Inc., and LSS have no further ownership stake in or management responsibilities for RGCO.

As part of their purchase agreement, Messrs. Ciupke and Calaway each entered into a forgivable note arrangement with Mr. McDermott, such that the purchase price paid by Messrs. Ciupke and Calaway was reduced by the face value of two forgivable notes representing moneys owed to Mr. McDermott by Mr. Ciupke and Mr. Calaway, respectively. A portion of each note is forgiven, or cancelled, each year provided that RGCO meets certain trade volume targets with LSS. If the trade volume target is not met in any given year, the forgivable notes' face value remains unchanged. If Messrs. Ciupke and Calaway decide to cease working with LSS as registered representatives, the remaining face value of the notes is to be paid to Mr. McDermott. This arrangement presents a conflict of interest for us to the extent that the forgivable notes give us a financial incentive to recommend or execute purchases or sales in our clients' accounts based on the prospect of achieving a trade volume target, rather than on our clients' best interest.

To address the conflicts of interest noted above, we monitor trade activity in our clients' accounts in an effort to identify trading that is inconsistent with a client's investment objectives, risk tolerance, or account restrictions, as well as to assess the appropriateness of commission charges and the accuracy of execution. Specifically, all trades executed by representatives of RGCO on behalf of clients are reviewed independently by at least two principals of the firm. In most cases, these reviews occur on the business day immediately following trade execution. Moreover, when we purchase or recommend open-end mutual funds for our clients, we exclusively make use of no-load funds (i.e., mutual funds that do not incur charges, or "loads", upon purchase or sale), unless directed otherwise by the client.

In addition, clients are encouraged to monitor trade activity in their own accounts by reviewing information provided to them independently of RGCO by their custodian. This information includes written trade confirmations mailed directly to clients (generally within two business days of execution) and account statements mailed directly to clients no less frequently than quarterly.

In addition to serving as registered representatives of LSS, Jim L. Calaway and Christopher J. Ciupke are registered to sell life insurance products, including annuities, via LSS. As a result, RGCO is entitled to receive a portion of any commissions, selling concessions, or trailing concessions generated by the sale of such insurance products executed by Messrs. Calaway and Ciupke. These forms of compensation present a conflict of interest for us to the extent that they give us a financial incentive to recommend such insurance products to our clients based on the compensation we receive, rather than on the client's best interests.

To address this conflict of interest, we have established a policy of disclosing to our clients the nature and amount of any compensation we receive as a result of any sale of insurance products to them. Moreover, we do not generally charge an advisory fee for insurance products that we sell to our clients. As a practical matter, we seldom recommend insurance products to our clients.

## Item 11: Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading

RGCO maintains a Code of Ethics which details the standards of business conduct required of our employees. The following general standards provide the foundation for the more specific policies and procedures addressed in the Code:

1. The interests of our clients must be placed first.
2. All personal securities transactions by our employees must be conducted in a manner consistent with the Code.
3. Our employees must avoid actual or potential conflicts of interest where possible, as well as any abuse of their position of trust and responsibility.
4. Information concerning the identity of security holdings and the financial circumstances of clients is confidential.
5. Independence is paramount in the investment decision-making process.

We have built our reputation on the fundamental principles of honesty, integrity, and professionalism. The importance of these principles cannot be overemphasized. Employees of RGCO acknowledge that failure to comply with the Code and the standards and procedures set forth therein may result in disciplinary action, including termination of employment. A copy of our Code of Ethics is available to clients upon request.

RGCO occasionally sells securities to or buys securities from our clients, though only with the client's approval on a trade-by-trade basis. Such transactions, in which we act as principals, generally involve new issues. These may include certificates of deposit, tax-free bonds or US government or agency securities. We generally do not engage in principal transactions in other securities, and we never do so with ERISA accounts. Moreover, we do not generally engage in agency cross-transactions, except at the express request and with the written authorization of clients seeking such transactions.

When acting as principals, we may receive compensation in the form of a markup or selling concession, above and beyond any advisory fees that we may charge for managing the security in question as part of a client's investment portfolio. This presents a conflict of interest for us to the extent that it give us a financial incentive to recommend or execute purchases or sales of securities based on the compensation we receive, rather than on the client's best interests.

To address this conflict of interest, we disclose to our clients any compensation we receive in connection with principal trades we recommend for their accounts, and we require that clients give their written authorization for such transactions. As a practical matter, such transactions are fairly infrequent for our firm.

Our portfolio managers and employees often invest in the same securities that we purchase or recommend for client accounts. Moreover, we may buy or sell securities for our clients' accounts at or about the same time that we buy or sell the same or related securities for our own accounts. These practices present a conflict of interest for us to the extent that they give us an incentive to execute client trades in an attempt to manipulate a security's market price for our own benefit. Such manipulation might include:

*Trading ahead of our clients.* For example, if we were to buy a security for our own accounts, and thereafter buy a much larger quantity of the same security for our clients' accounts, we might cause the market price of the security in question to rise materially. Doing so would allow us to profit from the rising price of the security in our own accounts to a greater degree than our clients would.

*Trading against our clients.* For example, if we were to sell a large quantity of a security for our clients' accounts, we might cause the market price of the security in question to fall materially. If we were then to purchase the security for our own accounts, we would benefit from a more attractive entry price than would otherwise have been available, at the expense of our clients.

To address these conflicts of interest, we monitor our employees' accounts routinely to provide reasonable assurance that our employees' trades are consistent with our Code of Ethics. In particular, our Code calls for authorization of

our employees' trades in non-exempt "covered securities" (please see definitions and further discussion of covered and exempt securities below) prior to execution, routine reviews of our employees' executed trades, blackout periods for employee trades involving securities recently purchased or sold for clients' accounts, and other measures.

The specific provisions of our Code governing our employees' trades in their own accounts include the following:

*Market trades in covered securities.* Our employees will make every reasonable effort not to purchase at the market any "covered security" that is not exempted from pre-clearance (please see below for lists of covered and exempt securities) for their own accounts or controlled accounts (e.g., trusts) for a period of three business days before and after such security is purchased at the market for discretionary clients for whom the security is suitable, or for a period of three business days before and after a recommendation for the purchase of such security is originally made to non-discretionary clients for whom the security is suitable. In addition, employees must obtain documented pre-clearance approval from RGCO's Chief Compliance Officer for any personal purchases of non-exempt covered securities. Any such purchases will be subject to post-clearance review by the Chief Compliance Officer for a period of three business days after the date of purchase in order to provide reasonable assurance that conflicts between clients' and employees' interests are prevented or detected in a timely manner. In the event that a conflict is detected, relevant purchases may be re-billed (or cancelled, if deemed necessary in the case of employee trades) to ensure that affected clients do not receive a less favorable trade than the employee(s).

If a non-exempt covered security is being sold at the market or is under consideration to be sold at the market, employees will make every reasonable effort not to sell the security at the market from their own accounts or controlled accounts for a period of three business days both before and after such security is sold for discretionary clients for whom the sale is suitable, or for a period of three business days before and after a recommendation for the sale of such security is originally made to non-discretionary clients for whom the sale is suitable, except in the event of a full liquidation of such security. In the case of a full liquidation of a non-exempt covered security held by both clients and employees, employees may sell such security on the same trading day or any trading day subsequent to the day on which all positions are sold for discretionary clients for whom the sale is appropriate, provided that reasonable efforts have been made to communicate the sale recommendation to all relevant non-discretionary clients. In addition, employees must obtain documented pre-clearance approval from the Chief Compliance Officer before selling any non-exempt covered securities. Any such sales by employees will be subject to post-clearance review by the Chief Compliance Officer for a period of three business days after the date of sale in order to provide reasonable assurance that conflicts between clients' and employees' interests are prevented or detected in a timely manner. In the event that a conflict is detected, relevant sales may be re-billed (or cancelled, if deemed necessary in the case of employee trades) to ensure that affected clients do not receive a less favorable trade than the employee(s).

*Limit trades in covered securities.* Employees may place good-until-cancelled open limit orders for their own or related accounts in non-exempt covered securities for which good-until-cancelled open limit orders have been placed for clients, provided that: (1) appropriate, documented pre-clearance approval has been obtained from the Chief Compliance Officer (in keeping with the preceding), and (2) employees' limit order prices are consistent with, or less favorable than, clients' discretionary and/or solicited open limit prices. Note, however, that if such securities are exempted, pre-clearance approval from the Chief Compliance Officer is *not* required and the foregoing provisions need not apply. Pre-clearance approval must be renewed (in keeping with the preceding) for any expired good-until-cancelled open limit orders in employees' or related accounts before such orders can be re-entered.

*Review of employee trades.* All trades for employees' accounts are to be reviewed by the Chief Compliance Officer of RGCO. Employees must provide RGCO with duplicate copies of all closely related party broker statements and confirms from their own accounts or controlled accounts (e.g., trusts) if said accounts are invested in covered securities.

For the purposes of our Code, "covered securities" include:

- Stocks, bonds, financial futures, investment contracts, or any other instrument deemed a "security" under the Investment Advisers Act
- Shares of exchange-traded funds or exchange-traded notes

- Options on securities, on indices, and on currencies
- All kinds of limited partnerships
- Private investment funds, hedge funds, and investment clubs

For the purposes of our Code, covered securities do *not* include:

- Direct obligations of the U.S. government (e.g., Treasury securities)
- Bankers' acceptances, bank certificates of deposit, commercial paper, and high-quality short-term debt obligations (including repurchase agreements)
- Shares issued by money market funds
- Shares of open-end mutual funds whose investment company (or companies) is (are) not advised or sub-advised by RGCO

For the purposes of our Code, the following securities are exempt from pre-clearance requirements, since the impact of trades in these securities upon the broader financial markets is deemed to be negligible. However, such trades are still reported to and reviewed by RGCO's Chief Compliance Officer:

- Section 529 college-savings plans
- Closed-end index funds
- Unit investment trusts
- Exchange-traded funds or notes tracking broad-based securities or commodities indices
- Futures and options on currencies or broad-based securities or commodities indices
- Sovereign debt obligations of non-U.S. government issuers which are allowable under U.S. law
- Debt obligations of U.S. municipal or state government issuers
- Debt obligations of U.S. agencies (such as Fannie Mae, Freddie Mac, Tennessee Valley Authority, etc.)
- Debt obligations of corporate issuers whose market capitalization exceeds \$1 billion
- Trades in securities whose total ownership among clients falls below at least one of the following *de minimis* levels:
  - For common stocks, closed-end index funds, unit investment trusts, or exchange-traded funds or notes: 1,000 shares or units
  - For all securities: total market value of \$100,000
- *De minimis* trades in common stocks or other corporate securities subject to the following parameters:
  - Market capitalization of \$1 billion or greater
  - Trade size of 1,000 shares or fewer (for common or preferred stocks) or \$100,000 principal value (for fixed income or other securities) per employee within a thirty day period

## Item 12: Brokerage Practices

At the outset of a client's relationship, the client may specify whether transactions are to be executed through LaSalle St. Securities, LLC ("LSS"), other broker-dealers, or broker-dealers selected by RGCO (including LSS). In general, we select or recommend broker-dealers and determine the reasonableness of their compensation based on the following factors:

- Availability of direct access to traders
- Familiarity of traders with our business
- Accuracy and speed of execution
- Promptness and accuracy in reporting and settlement
- Promptness and accuracy in correcting trade errors
- Financial stability
- Quality of custodial services, if any
- Research capabilities, if any
- Commission rates in comparison with other broker-dealers

We routinely recommend or request (though we do not require) that our clients direct us to execute transactions through LSS. Not all advisers request or require that their clients direct brokerage in this manner. As noted in

Items 5 and 10 above, our portfolio managers are registered representatives of LSS. As such, our portfolio managers receive a portion of the commissions, markups, selling concessions, or other compensation generated by the purchase and sale of securities in the accounts of our clients who maintain custody with National Financial Services, LLC ("NFS") via LSS as introducing broker, or who maintain custody elsewhere but allow us to execute trades for their portfolios on a Delivery vs. Payment basis. (In a Delivery vs. Payment arrangement, we are authorized to purchase or sell securities via LSS for clients who maintain custody of their portfolios outside of NFS. Delivery of any securities we buy or sell on the clients' behalf, and net funds owed or proceeds received, is facilitated by NFS in cooperation with the clients' custodians.)

Clients who maintain custody with NFS via LSS as introducing broker may, at their discretion, request margin loans drawn from their regular brokerage accounts. (In a margin loan, an account holder borrows funds using his or her brokerage assets as collateral. Such loans incur interest charges and may also require the account holder to post additional collateral if the value of securities in his or her brokerage account declines.) In such instances, RGCO may share modestly in interest charges paid to NFS. As a general rule, RGCO does not recommend the use of margin loans for our clients.

The vast majority of our clients hold their accounts with NFS or allow us to execute trades for their accounts (if held elsewhere) on a Delivery vs. Payment basis, and thus we share in the commissions or other compensation generated by trades in most of our clients' accounts. Moreover, we may receive asset-based sales charges (such as front- or back-end loads) or 12b-1 fees from the purchase or sale of mutual funds for our clients who hold their accounts with NFS. These forms of compensation present a conflict of interest for us and our portfolio managers to the extent that they give us a financial incentive to recommend or execute purchases or sales in a client's account based on the compensation we receive, rather than on the client's best interests.

Furthermore, prior to May 16, 2007, RGCO was partially owned (20%) by McDermott-LaSalle, Inc., a holding company owned by John W. McDermott, who also owns LSS. On May 16, 2007, Clemens Ciupke and Jim Calaway executed a purchase agreement with Mr. McDermott, whereby Mr. McDermott sold to Messrs. Ciupke and Calaway his non-controlling stake in RGCO. Mr. McDermott, McDermott-LaSalle, Inc., and LSS have no further ownership stake in or management responsibilities for RGCO.

As part of their purchase agreement, Messrs. Ciupke and Calaway each entered into a forgivable note arrangement with Mr. McDermott, such that the purchase price paid by Messrs. Ciupke and Calaway was reduced by the face value of two forgivable notes representing moneys owed to Mr. McDermott by Mr. Ciupke and Mr. Calaway, respectively. A portion of each note is forgiven, or cancelled, each year provided that RGCO meets certain trade volume targets with LSS. If the trade volume target is not met in any given year, the forgivable notes' face value remains unchanged. If Messrs. Ciupke and Calaway decide to cease working with LSS as registered representatives, the remaining face value of the notes is to be paid to Mr. McDermott. This arrangement presents a conflict of interest for us to the extent that the forgivable notes give us a financial incentive to recommend or execute purchases or sales in our clients' accounts based on the prospect of achieving a trade volume target, rather than on our clients' best interest.

To address the conflicts of interest noted above, we monitor trade activity in our clients' accounts in an effort to identify trading that is inconsistent with a client's investment objectives, risk tolerance, or account restrictions, as well as to assess the appropriateness of commission charges and the accuracy of execution. Specifically, all trades executed by representatives of RGCO on behalf of clients are reviewed independently by at least two principals of the firm. In most cases, these reviews occur on the business day immediately following trade execution. Moreover, when we purchase or recommend open-end mutual funds for our clients, we exclusively make use of no-load funds (i.e., mutual funds that do not incur charges, or "loads", upon purchase or sale), unless directed otherwise by the client.

In addition, clients are encouraged to monitor trade activity in their own accounts by reviewing information provided to them independently of RGCO by their custodian. This information includes written trade confirmations mailed directly to clients (generally within two business days of execution) and account statements mailed directly to clients no less frequently than quarterly.

By directing brokerage to LSS, we may be unable to achieve the most favorable execution of our clients'



transactions, and this practice may cost clients more money than would otherwise be the case. In particular, brokerage transactions executed through LSS may result in commissions that are materially higher than the industry average, especially when compared with commissions charged by online or discount brokerage firms. Moreover, we do not negotiate volume discounts on blocked or aggregated transactions effected through LSS, and other broker-dealers may offer materially lower commissions on such blocked transactions. In general, clients for whom we execute trades through LSS may be able to pay less in commissions at brokerage firms other than LSS.

Upon request, we permit our clients to direct us to use a broker-dealer other than LSS for transactions executed in their accounts. In such cases, we may be unable to achieve the most favorable execution of client transactions. Moreover, directing brokerage may cost clients more money than would otherwise be the case. For instance, a directed brokerage account may incur higher commissions than would be available for identical trades executed through LSS, or we may not be able to block or aggregate orders, which may result in the client receiving less favorable prices. We require all clients directing brokerage to a broker-dealer other than LSS to acknowledge in writing their preference for this arrangement.

Our portfolio managers may elect to block or aggregate client trades to achieve more timely, equitable, or efficient execution. In particular, we may block client trades involving illiquid securities, the purchase or sale of a relatively large number of shares or units, and/or the placement of open buy or sell limit orders at prices below or above current market prices. Moreover, we may block client trades in order to achieve identical pricing for all participating accounts. We may not block or aggregate client trades in all cases in which we have the opportunity to do so, particularly in cases that do not involve illiquid securities or relatively large volume in aggregate.

Clients participating in block transactions will receive the same average share price. However, our clients do not receive volume discounts on commissions they pay for trades involving participation in block trades we execute through LSS. Rather, commission charges for clients participating in any such block trades will reflect each individual client's previously negotiated commission rate.

We do not generally receive client referrals from broker-dealers. Thus, our decision to select or recommend a broker-dealer is not influenced by whether we have received or are likely to receive client referrals from the broker-dealer.

Commission schedules for clients who allow us to direct brokerage to LSS may vary from one client to another. In some cases, commission rates may be determined in relation to the amount of advisory fees paid (i.e., in some cases a higher advisory fee may result in a lower commission rate or vice-versa). In other cases, commission rates may be determined independently of the amount of advisory fees paid. In all cases, these commission rates will be used for all trades (block trades, individual trades, etc.) but may be lowered at the portfolio managers' discretion.

As a fiduciary, RGCO has the responsibility to effect orders correctly, promptly and in the best interests of our clients. In the event an error occurs in the handling of any client transactions due to our actions or inaction, or due to the actions of others, our policy is to seek to identify and correct the error as promptly as possible without disadvantaging the affected client. If an error is the responsibility of RGCO, the affected client's transaction will be corrected and any gain or loss resulting from an inaccurate or erroneous order will be borne by RGCO.

### Item 13: Review of Accounts

We typically conduct in-depth reviews of our clients' accounts two to four times per year. In each case, the review is conducted by at least one portfolio manager assigned to the account, who sometimes, though not always, consults or collaborates with at least one other portfolio manager prior to executing trades pursuant to the review. As of the date of this writing, our portfolio managers are Clemens P. Ciupke (Chief Executive Officer), Jim L. Calaway (President), Byron J. Smythe (Vice President), and Christopher J. Ciupke (Investment Adviser Representative).

Portfolio reviews generally consist of an assessment of a client's overall asset allocation in light of the client's long-term investment objectives, risk tolerance, and liquidity needs; a review of individual securities held, including an assessment of valuation and position size; consideration of potential additions to or subtractions from the portfolio; and, finally, an execution of any trades deemed appropriate in light of the conclusions drawn from the review.

Portfolio reviews, whether partial or total, may be triggered on an other-than-periodic basis by significant financial market moves (which may be sparked by panics, booms, or industry-specific events, among other developments), shifts in a client's financial situation or preferences (such as a desire for greater liquidity, a change in risk tolerance, or a change in personal circumstances), significant account contributions or withdrawals, or positive or negative developments in an individual security that prompt a review of holders and potential buyers or sellers of the security across our client base.

We mail written client appraisal reports to each of our clients, generally on a quarterly basis. These reports provide information about holdings in each client's portfolio, including current market values (if available), purchase dates (if available), cost bases (if available), and income information. Client appraisal reports are provided for information only and in no way replace official account statements provided by our clients' custodian(s). Moreover, some asset values shown on client appraisal reports cannot be verified and should not be relied upon for the determination of fair market value.

For clients with taxable accounts, we also mail written, quarterly reports summarizing any realized capital gains and losses in their accounts. We urge clients to review these reports carefully and to compare them with account statements or tax documents they receive from their custodian(s).

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

RGCO entered a retirement agreement with James D. MacDonald upon Mr. MacDonald's retirement from our firm on December 31, 2006. Under the terms of the agreement, client accounts managed by Mr. MacDonald were transferred to Jim Calaway's management. Mr. MacDonald received trailing payments based on revenues generated by the accounts transferred to Mr. Calaway. Mr. MacDonald's retirement agreement terminated in December 2011.

On occasion, we receive referrals from existing clients. In such cases, client referrals could result in a reduced investment advisory fee for the referee.

On occasion, we receive referrals from accounting or legal professionals who work with existing clients of our firm. We may recommend the services of those professionals to other members of our client base if we feel the quality of the professionals' services merits recommendation. This presents a conflict of interest for us to the extent that we may be motivated to recommend a professional's services to a client based upon the prospect of receiving a referral from the professional, rather than on our client's best interest. To address this conflict of interest, we disclose to any client to whom we recommend a professional's services the fact that we have other clients who also use the professional's services, and that the professional may refer potential clients to our firm. We do not maintain formal or contractual agreements with accounting or legal professionals to refer clients to our firm in exchange for our recommendation of their services.

## **Item 15: Custody**

As a matter of policy, we do not take physical custody of client funds or securities, except on rare occasions when, acting as an Office of Supervisory Jurisdiction of LaSalle St. Securities, LLC, we receive physical certificates for deposit to a client's account. In such cases, any physical securities we receive are immediately forwarded to LSS for proper processing.

The majority of our clients authorize us to deduct our investment advisory fees directly from their accounts, as opposed to paying advisory fees by check. As a result, we are deemed to have custody of such clients' funds or securities. In all such cases, clients will receive quarterly (or more frequent) account statements directly from their qualified custodian. Clients should carefully review the statements they receive from their custodian.

Clients also receive written, quarterly client appraisal reports prepared by our firm. These reports provide information about holdings in each client's portfolio, including current market values, purchase dates (if available),

cost bases (if available), and income information. We urge clients to review these reports carefully and to compare them with account statements or tax documents they receive from their custodian. For further information regarding reports we prepare for our clients, please see Item 13.

## Item 16: Investment Discretion

Our portfolio managers may be granted discretionary authority (i.e., power to act without prior client consent) to manage securities accounts on behalf of our clients. This authority is limited to the purchase or sale of securities in clients' accounts and must be initiated by the execution of a limited power of attorney. A client may revoke a limited power of attorney at any time by notifying us of the revocation in writing. As a matter of policy, we do not allow our employees to act under a general power of attorney (i.e., an authorization which allows for the deposit, withdrawal, or transfer of client funds or securities) for accounts of non-family members.

Clients who grant us investment discretion may receive more or less favorable execution prices than those received by other clients (whether discretionary or non-discretionary) for trades involving the same security, depending on the timing of individual clients' portfolio reviews or the nature of client instruction (as when some clients communicate a desire to be more or less heavily invested in a specific security or asset class than other clients). Also, clients who have not granted us investment discretion may receive more or less favorable execution prices than those received by discretionary clients for trades involving the same security, depending on the timing of non-discretionary clients' approval of our investment recommendations or the nature of client instruction (as above).

## Item 17: Voting Client Securities

At the request of a client, we will accept authority to vote proxies related to securities held by the client. In all such cases, our policy is to act in a manner that is in the best interest of the client. In so doing, we consider those factors that relate to the client's investment(s) or that are established by the client's written instructions, including our vote's economic impact on the value of the client's investment. In some cases, after conducting an appropriate cost-benefit analysis, we may conclude that not voting at all on a presented proposal may be in the best interest of the client.

When voting proxies for our clients, we generally adhere to the following guidelines:

- In the absence of specific voting guidelines from the client, we will vote proxies in the best interests of each particular client. Our policy is to vote all proxies from a specific issuer the same way for each client absent qualifying restrictions from a client.
- We will generally vote in favor of routine corporate housekeeping proposals, such as the election of directors or selection of auditors, absent conflicts of interest raised by an auditor's non-audit services.
- We will generally vote in favor of proposals that maintain or strengthen the shared interests of shareholders and management, increase shareholder value, maintain or increase shareholder influence over the issuer's board of directors and management, and/or maintain or increase the rights of shareholders.
- We will generally vote against proposals that have the opposite effect, including those that cause board members to become entrenched or cause unequal voting rights.
- In reviewing proposals, we will further consider the opinion of management, the effect on management, the effect on shareholder value, and the issuer's business practices.

Clients may instruct us how to vote a particular proxy by contacting us in writing prior to the expiration of the proxy.

In voting on each issue, our aim is to vote in a prudent and timely fashion and only after a careful evaluation of the issue(s) presented on the ballot. We will seek to avoid conflicts of interest raised by such voting discretion. If a conflict of interest does arise between us and a client with respect to voting the client's securities, a principal of our firm will determine whether to disclose the conflict to the affected clients, to give the clients an opportunity to vote the proxies themselves, or to address the voting issue through other objective means, such as voting in a manner

consistent with a predetermined voting policy or receiving an independent third party voting recommendation. Furthermore, we will maintain a record of the resolution of any conflict of interest.

Pursuant to SEC Rule 206(4)-6, we will maintain records as required by applicable law in connection with our proxy voting activities for clients. We retain most such records for at least five years. Clients may obtain information from us about how we voted their securities by contacting us directly by phone, mail, or e-mail. Clients may also obtain a copy of our proxy-voting policies and procedures upon request.

## **Item 18: Financial Information**

As noted in Item 15, the majority of our clients authorize us to deduct our investment advisory fees directly from their accounts, as opposed to paying advisory fees by check. As a result, we are deemed to have custody of such clients' funds or securities.

As of the date of this writing, we are not aware of any financial condition that is reasonably likely to impair our ability to meet contractual commitments.