



Quest Investment  
Management

Quest Investment Management, Inc.

Form ADV Part 2A – Disclosure Brochure

February 19, 2014

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This brochure provides information about the qualifications and business practices of Quest Investment Management, Inc. If you have any questions about the contents of this brochure, please contact Cameron Johnson, our Chief Compliance Officer, at (503) 221-0158. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

You can find more information about us at the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

This item identifies and discusses only those material changes that have occurred since the last update of our firm brochure, which was dated March 8, 2013. Since that date:

- E. Adrian Hamilton, an employee and member of our investment committee, has retired.

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## Item 4 – Advisory Business

### The Company

Quest Investment Management, Inc. ("we," "us" or "Quest") is an investment adviser registered with the SEC.<sup>1</sup> We began conducting business in 1985, and we have been registered with the SEC since that time. We are headquartered in Portland, Oregon.

We are entirely owned by our employees. Our principal owners are:

- Cameron Johnson, our Chief Executive Officer ("CEO") and Chief Compliance Officer ("CCO")
- Kevin Johnson, our Secretary, Treasurer and Senior Vice President

### Advisory Services

We provide traditional discretionary portfolio management to institutional and individual clients. We generally invest our clients' assets in growth stocks, intermediate- and short-term fixed income securities, or a blend of those investments. However, we may use a wide range of different securities to construct client portfolios. Our investment strategies are more fully described below in Item 8.

We sometimes serve as subadviser to other firms to assist in the investment of those firms' clients' assets. We also provide investment advisory services to certain real estate pooled trusts and perform related property management services for the properties held by those trusts.

### Direct Portfolio Management

We provide continuous full-time asset management. We use a flexible "fully managed" investment strategy which enables us to vary assets with market trends.

We use a "top-down" strategy, meaning that we begin our investment process by looking at the overall economy, conducting credit analysis, and considering quantitative big-picture indications. We also consider global events including economic, political and social cycles and trends. This process helps us to make asset allocation decisions with respect to long- or short-term maturity debt, cash equivalents and equity positions.

We do not limit our advice to any specific product or service. We generally invest client assets in the following:

- exchange-listed securities
- securities traded over-the-counter
- warrants

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<sup>1</sup> Registration as an investment adviser does not imply a certain level of skill or training.

- corporate debt securities (other than commercial paper)
- commercial paper
- certificates of deposit
- municipal securities
- mutual funds
- exchange-traded funds ("ETFs")
- U.S. government securities
- participation in pooled trusts investing in real estate

These investments carry different risks. As a result, we carefully consider an investment's risk profile and only invest in a given instrument when we feel it is suitable for the client and consistent with the client's investment objectives, risk tolerance and liquidity needs.

#### Tailored Advisory Services for Direct Portfolio Management

Our investment advice is based on your needs. Institutional clients generally provide us with an investment policy to follow, which we regularly review. We invest your assets in accordance with your investment policy.

For our individual clients, we establish investment objectives based on your particular circumstances through personal discussions. Then, we develop your individual investment policy and create and manage a portfolio based on that policy. During our data-gathering process, we determine your individual objectives, time horizons, risk tolerance and liquidity needs. As appropriate, we also discuss your prior investment history, tax situation, and family composition and background.

Market volatility can sometimes change asset values. When this happens, the values of your assets may become somewhat inconsistent with your desired asset allocation objectives, as stated in your investment policy. If we think it is appropriate, we will rebalance your portfolio to match your allocation objectives. Rebalancing your portfolio can lead to additional trading costs.

All of our clients may impose restrictions on investing in certain securities, types of securities, industries or sectors. You must advise us of any such restrictions in writing.

#### Subadviser Services

*Individual Clients.* We currently serve as subadviser to Johnston & Associates, Inc., a wealth management firm located in Denver, Colorado. That firm has appointed us to manage a portion of its clients' assets, and those clients have agreed to have us provide them with advisory services. We establish investment policies for those clients based on a questionnaire or using those clients' own investment policies. We generally consider individual clients for whom we serve as subadviser to be our clients for all purposes, including bonding insurance, suitability and fiduciary liability.

*Pooled Investment Vehicles.* We also serve as subadviser to pooled investment vehicles (such as mutual funds), and we generally consider these entities to be our clients for all purposes, including bonding insurance, suitability and fiduciary liability.

### Real Estate Pooled Trusts

We advise eight separate real estate pooled trusts, called the Quest Group Trusts (the "QGTs"). The QGTs are numbered 1 through 8 and invest only in to-be-built commercial income producing real estate. The QGTs are intended to meet the requirements of IRS Revenue Ruling 81-100, 1981-1 C.B. 326 and Section 401(a)(24) of the Internal Revenue Code. The QGTs were established to provide participating investors (individual retirement trusts) exempt from federal income tax under Section 501(a) of the Internal Revenue Code with a medium for pooling their funds for investment by the QGT in equity real estate.

All the QGTs hold their real estate assets without the use of debt or leverage. Each QGT takes title to a property upon completion and delivery of a local government's certificate of occupancy. The investment objectives of each QGT include (a) an annual net cash payout to investors competitive with other income-producing commercial real estate; and (b) capital appreciation of the properties due to location, cash flow, tenant mix and maintenance. Investments in real estate are confined to the Portland, Oregon metropolitan area. MAI-designated appraisers conduct annual independent appraisals of the properties.

Our services to the QGTs include supervision of daily activities, monthly financial analysis and review of each QGT, collection of income, payment of expenses, supervision of property management, timely maintenance, tenant relations, regular reports to investors, preparation of pro-forma budgets, and analysis and recommendations to the QGTs' trustee.

If an opportunity for investment in the QGTs becomes available, we may propose that tax-qualified clients participate in the QGTs. However, we do not use our discretion to invest client assets in the QGTs.

U.S. Bank, N.A. serves as trustee and custodian for each of the eight QGTs, and the QGTs are audited annually by KPMG LLP.

### Property Management

Our property management department provides the industry standard management functions for each property owned by the QGTs. Our property management department is operated on a nonprofit basis and does not manage any properties other than those owned by the QGTs.

Any property management fees collected in excess of expenses directly incurred by the department, less a prudent reserve, are distributed back to the QGTs. We generate separate financial statements for the department.

## **Assets Under Management**

As of December 31, 2013, we had \$1.50 billion in client assets under management. This figure differs from the amount disclosed on our Form ADV Part 1A because it includes \$115.5 million in assets held by the QGTs, which primarily hold real estate. The difference in client assets under management from 2013 is due primarily to client decisions to reallocate their portfolios into new asset strategies unsupported by Quest and various other client withdrawals. We manage all client assets on a discretionary basis.

## **Item 5 – Fees and Compensation**

### **Direct Portfolio Management**

#### **Amount of Our Fees**

We generally calculate our fees as a percentage of the assets we manage for you. Our standard fee schedule is stated below (fees are on annual basis):

<b><u>Assets Under Management</u></b>	<b><u>Annual Fee</u></b>
First \$25 million	0.6%
Next \$25 million	0.5%
Amounts over \$50 million	0.4%

#### **Payment of Our Fees**

Each quarter, we calculate our fee based on the aggregate fair market value of the cash and securities in your account on the last business day of the quarter. We use an outside pricing service to assist us in determining fair market value. The value of any security listed on any national securities exchange is valued at the last quoted sale price on the valuation date. Any other security or asset is valued by us to reflect its fair market value.

You pay our fees in arrears at the end of each calendar quarter. We may deduct our fees directly from your account or invoice you for the amounts due, depending on the agreement between you and us. If your agreement begins during a quarter, we will prorate the fee you pay for the initial partial quarter, based on the number of days from the beginning of your agreement until the end of the initial quarter. Additionally, our client agreement may generally be terminated on 30 days' written notice by either you or us. If your agreement with us terminates during a quarter, we will prorate the fee you paid, based on the number of days between the end of the 30-day notice period and the end of the quarter.

In addition, because we calculate our fee based on the value of your account assets on the last day of a quarter, we may make adjustments to your quarterly fee due to assets you add or withdraw during a quarter if those additions or withdrawals cause (in our sole determination) a significant change in the value of your account. If we make such an adjustment, we will prorate

the increase or decrease in fees based on the number of days between the significant addition or withdrawal and the end of the quarter.

## **Fees for Subadvisory Services**

### **Individual Clients**

As mentioned in Item 4 above, we also serve as subadviser to another registered adviser who appoints us to manage a portion of its clients' assets. For these services, we receive a portion of the fee charged by the client's principal adviser. That portion is based on the size and complexity of the client's account and the agreement between us and the client's principal adviser.

Accounts that we subadvise do not generally incur fees higher than the fees we charge for our direct portfolio management services. The amount of fees we receive for our subadvisory services are disclosed to our subadvisory clients in their agreements with their principal adviser.

### **Pooled Investment Vehicles**

As mentioned in Item 4 above, we also serve as subadviser to advisers that manage pooled investment vehicles, such as mutual funds. For these services, our fees are disclosed in those investment vehicles' applicable disclosure documents.

## **Fees for Services to the QGTs**

For our services to the QGTs (described above in Item 4), we receive an annual fee equal to the sum of (a) 0.75% of the net market asset value of the real estate assets held by the QGTs and (b) 0.25% on 20% of the value of all non-real estate assets held by the QGTs. The QGTs' trustee and custodian each receives an annual fee equal to the sum of (a) 0.25% of the net market asset value of the real estate assets held by the QGTs and (b) 0.125% of the value of all non-real estate assets held by the QGTs.

Note: These fees are based, in part, on the valuation of real estate assets. Unlike exchange-traded securities, real estate assets do not have readily available market quotations that provide benchmarks for determining value. As a result, there is a potential conflict of interest that occurs when such assets are valued to calculate fees. To address this conflict, MAI-designated appraisers conduct annual independent appraisals of the real estate held by the QGTs. We recommend that the QGTs' trustee accept the valuation if it appears reasonable. Moreover, in accordance with Financial Accounting Standards Statement No. 157, the QGTs' trustee or auditor may ask us to provide a fair valuation report on assets held by the QGTs. That report would be available to a QGT investor upon request.

## **Negotiability and Fee Variation**

We reserve the right to negotiate fees. Some clients pay more or less than others depending on certain factors, including the type and size of the account, our fee schedule in



effect at the time the client engaged us, the range of additional services provided to the client, anticipated future additional assets, and the total amount of assets managed for a group of related clients. Your fee is specified in your agreement with us.

We currently manage a few accounts on a fixed fee basis. In our sole discretion, we may agree to receive fixed fees instead of the asset-based fee described above.

We may group related accounts together to allow clients to determine our fee. We may also offer fee discounts to family members and friends of our firm's associated persons. These discounts are not generally available to our advisory clients.

### **Other Fees**

If you have mutual funds or ETFs in your portfolio, you will incur fees in addition to our fees. For example, you may incur a commission or transaction fee when the mutual fund or ETF is purchased, and you will incur an annual management fee payable to the manager of the fund, neither of which is shared with us. If a fund also imposes sales charges, you may pay an initial or deferred charge. These fees and expenses are described in each fund's prospectus. When considering an investment in a mutual fund or ETF, we use a no-load, open-end fund when appropriate. We evaluate the relative annual costs as a part of our decision process.

You could invest in a mutual fund or ETF directly, without our services. In that case, you would not receive the services we provide, which are designed in part to help you determine which, if any, mutual funds and ETFs are best suited to your financial condition and objectives. You should review the fees charged by the mutual fund and/or ETFs and our fees to fully understand the total amount of fees you will pay and to evaluate the advisory services we provide.

All clients (whether or not they have mutual funds or ETFs in their portfolio) will also be responsible for brokerage and other transaction costs, as discussed below in Item 12.

### **No Compensation from Sales of Securities**

Quest and its employees do not accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

Moreover, we are deemed to be a fiduciary to clients that are employee benefit plans or individual retirement accounts (together, "Plans") under the Employee Retirement Income and Securities Act ("ERISA"), and regulations under the Internal Revenue Code of 1986, as amended, respectively. As such a fiduciary, we may not engage in any "prohibited transaction," which includes any transaction where we might receive something of value other than fees for the services we perform. This means that we cannot advise Plans to make an investment in which we, or our related persons, could receive a commission or 12b-1 fee, unless the amount of our fee charged to the Plan is reduced by the amount of commissions or 12b-1 fees received by us and/or our related persons. Nevertheless, as stated above, we do not invest Plan assets (or any

client assets) in products in which we, or our related persons, would receive a commission or 12b-1 fee.

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

Quest and its employees do not accept "performance-based fees" (fees based on a share of capital gains on or capital appreciation of your assets).

## **Item 7 – Types of Clients**

We generally provide advice to the following types of clients:

- individuals, including their trusts, estates, individual retirement accounts (IRAs) and self-directed 401(k) accounts
- pension and profit sharing plans
- endowments and other charitable organizations
- corporations and other businesses

### **Minimum Account Size**

The minimum account size is \$10 million for investment in our Large Cap Equity and Large Cap Concentrated strategies (both described below in Item 8) and \$5 million for investment in our Small Cap Equity strategy (also described below in Item 8). We do not have account minimums for accounts invested in other strategies. Under all circumstances, we reserve the right to waive any minimum account requirements in our discretion.

You are subject to the minimum account requirements in effect when you engage us as your adviser. Therefore, our minimum account requirements will differ among clients. We may group related accounts together to allow clients to meet our minimum account requirements.

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

### **Methods of Analysis**

#### **Methods Used**

We use the following methods of analysis to manage your assets:

- *Charting.* We review charts of market and security activity to identify when the market is moving up or down and to predict how long the trend may last and when that trend might reverse.
- *Fundamental Analysis.* We measure the intrinsic value of a security by looking at economic and financial factors, such as the overall economy, industry conditions, and the financial condition and management of a given company. This helps us to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).
- *Technical Analysis.* We analyze past market movements and apply that analysis to the present. This helps us recognize recurring patterns of investor behavior and potentially predict future price movement.

### Risks Associated with Our Methods of Analysis

Our judgment about the attractiveness, value and potential appreciation of a particular asset class or individual security may be incorrect, and there is no guarantee that the securities we select will perform as anticipated. The value of an individual security can be more volatile than the market as a whole, or our approach may fail to produce the intended results. Our estimate of a security's intrinsic value may be wrong or, even if our estimate of intrinsic value is correct, it may take a long time before the price and intrinsic value converge. As a result, there is a risk of loss of the assets we manage that is out of our control. We seek to reduce your risk through diversification. Although we will do our best in managing your assets, we cannot guarantee any level of performance or that you will not experience a loss in your assets.

Additionally, in performing our analysis, we may use commercially available information services and financial publications, research materials prepared by various broker-dealers and other research developed by other third-party providers. Our methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

### Investment Strategies and Process

We use the following strategies in managing client accounts, provided that such strategies are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

- large capitalization growth stocks ("Large Cap Equity")
- concentrated large capitalization growth stocks ("Large Cap Concentrated")
- small or middle capitalization growth stocks ("Small Cap Equity")
- intermediate- and short-term fixed income ("Core Fixed Income")
- a blend of Large Cap Equity and Core Fixed Income ("Balanced")

## Large Cap Equity, Large Cap Concentrated and Small Cap Equity

Our investment philosophy for our Large Cap Equity strategy, our Large Cap Concentrated strategy, our Small Cap Equity strategy and the equity portions of accounts invested in our Balanced strategy is founded on a traditional top-down assessment of the overall economy and a consideration of long- and short-term patterns and trends.

Our process emphasizes companies that we believe are likely to demonstrate revenue and earnings growth, have compelling business franchises, solid existing business fundamentals, potential for stock appreciation and solid management. Decisions on sector and industry weightings as well as individual stock selection begin with an unbiased evaluation of sector, industry and stock strength.

We use a multi-component screening process to examine technical, fundamental and valuation metrics for the eligible, investable universe of stocks. This process employs three levels of screening:

1. The first level of screening determines the investment health of the economic sectors and industries. The screen will help to determine the sector weights of the portfolio and will generate an initial list of attractive stocks. We use our proprietary ranking process, the "Q-Score," which considers factors such as earnings, revenue growth, profit margins and return on equity.
2. The second level of screening narrows the list of stocks, taking into account subjective qualifications on the economic outlook for the individual sectors and industries.
3. The third level of screening pinpoints the optimal time to buy the stock factoring in technical and charting methods of analysis.

We typically hold between 50 and 100 stocks in all of our equity portfolios (except for Large Cap Concentrated portfolios, which typically hold between 25 and 40 stocks), and the top ten holdings comprise approximately 25-35% of the portfolio. We may sell stocks to realize profit, to get rid of a problem stock, or to take advantage of a better opportunity. In all cases, our sell discipline is driven by a desire to manage portfolio risk.

## Core Fixed Income

Our Core Fixed Income strategies are designed to prudently maximize income while preserving capital. Working with the client's objectives in mind, we tailor each account to meet our client's specific goals and objectives.

We believe the primary goal of successful fixed income investment management is maximizing portfolio yield without taking significant principal risk. Safety of principal has long been a key tenet of our fixed income management. That means we will not add risk by using

portfolio leverage or derivatives. We seek to further protect your principal by diversifying your portfolio and taking on limited non-benchmark portfolio risk.

We believe that there are two critical aspects to managing fixed income investments – duration and credit quality. We base our duration and credit quality decisions on where we are relative to the business cycle, and we consider federal policy, industrial production, inflation rates and other indicators. We make decisions to buy or sell fixed income securities based on our analysis of value both within and across fixed income sectors and our consideration of the changing risk profiles of individual securities and sectors.

At economic troughs, government-backed securities typically become expensive, reflecting investor demand for quality. At these times, corporate credit reflects fear, and this makes corporate bonds inexpensive. As interest rates bottom out, we search for lower quality credit while reducing exposure to government-backed securities. The process is reversed at the top of the economic cycle.

We generally select fixed income securities that, at the time of purchase, have a rating of at least "investment grade." That rating indicates that the instrument is of high credit quality and has a very low risk of default. We may select other securities that are considered even safer than investment grade. Our current fixed income holdings include U.S. government bonds, U.S. agency bonds, U.S. agency mortgage-backed securities, and high-grade corporate securities. Our duration target range is generally plus or minus one year, relative to the respective benchmarks.

### Balanced

Our Balanced strategy seeks to provide clients with a balance of long-term capital appreciation and current income. This strategy consists of allocations of our Large Cap Equity and Core Fixed Income strategies described above. Specific allocations used will be based on our investment committee's overall top down view of the economy, the risks inherent in each strategy, and a client's individual objectives.

### Risks Associated with Our Investment Strategies

Our two Large Cap Equity strategies and the Small Cap Equity strategy face risks such as:

- *General Equity Market Risk* – Overall stock market risks may affect the value of investments in equity strategies. Factors such as U.S. economic growth and market conditions, interest rates, and political events affect the equity markets.
- *Large Cap Equity* – There is a risk that returns from large capitalization stocks will trail returns from the overall stock market. Large capitalization stocks tend to go through cycles of doing better, or worse, than the stock market in general.
- *Small Cap Equity* – Investments in smaller companies may be riskier than investments in larger, more established companies. The securities of these companies may trade less frequently and in smaller volumes than securities of

larger companies. In addition, smaller companies may be more vulnerable to economic, market and industry changes. Because smaller companies may have limited product lines, markets or financial resources, or may depend on a few key employees, they may be more susceptible to particular economic events or competitive factors than large capitalization companies.

*Core Fixed Income.* Even though we invest only in fixed income securities that are investment grade or better, our Core Fixed Income strategy faces risks such as:

- *Interest Rate Risk* – Fixed income securities increase or decrease in value based on changes in interest rates. If rates increase, the value of fixed income securities generally declines. On the other hand, if rates fall, the value of the fixed income securities generally increases.
- *Credit Risk* – There is a risk that issuers and counterparties will not make interest and/or principal payments on the securities they issue or that their payments will not be made when due. In addition, the credit quality of securities may be lowered if an issuer's financial condition changes. Lower credit quality may lead to greater volatility in the price of a security, and that may affect liquidity and our ability to sell the security.
- *Call Risk* – There is a risk that falling interest rates will cause an issuer of fixed income securities to redeem (call) its high-yielding fixed income securities before their maturity date.

*Mutual Funds and ETFs.* We sometimes invest client assets in mutual funds and ETFs. These funds face risks based on the investments they hold. For example, a sector stock fund (which invests in a single industry, such as telecommunications) is at risk that its price will decline due to developments in its industry.

*Real Estate Risks.* The QGTs are invested in commercial real estate. While the QGTs invest in real property without the use of debt or leverage, the QGTs' investments still carry risks such as:

- *General Real Estate Market Risk* – As recent events have shown, there is a risk that the real estate market will decline and that the properties held by the QGTs will depreciate or fail to produce income.
- *Valuation Risk* – As stated above, MAI-designated appraisers conduct annual independent appraisals of the real estate held by the QGTs. However, we cannot assure you that their value analyses will be accurate. Moreover, a market value analysis merely attempts to estimate the value of real property at a given point in time, but subsequent events could adversely affect the value of the property.
- *Limited Geographic Diversification* – The QGTs only own property in the Portland, Oregon metropolitan area. As a result, the QGTs' income is likely to be affected by economic changes affecting the real estate markets in that area. A

regional recession or similar adverse economic change could negatively affect the profits of the QGTs.

### **Risk of Loss**

All investments in securities include a risk of losing your principal (invested amount) and any profits that you have not realized. You should be prepared to bear that risk. As you know, stock markets and fixed income markets fluctuate substantially over time. In addition, as recent global and domestic economic events have shown, the performance of any investment is not guaranteed. We ask that you work with us to help us understand your tolerance for risk.

## **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 your evaluation of us or the integrity of our management.

Quest has no legal or disciplinary events to report.<sup>2</sup>

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

### **Other Financial Industry Activities and Affiliations**

On April 1, 2009, we retained the services of Big Sky Marketing Client Service, Inc. ("Big Sky"), a company started by a former employee of ours. Big Sky provides client service consulting services for certain clients of ours and shares in the fees generated from those accounts. These clients do not pay any additional fees for Big Sky's services, and Big Sky may not solicit any new business for us.

### **No Compensation for Recommending or Selecting Advisers**

We must disclose if we receive compensation from other advisers for recommending or selecting those advisers for you. We do not receive compensation from other advisers for recommending or selecting them for you.

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<sup>2</sup> We note that registered advisers are required to report, in Part 1A of Form ADV, all disciplinary events regardless of whether they are material. Quest has no disciplinary events of any kind to report.

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

### **Code of Ethics**

We have adopted a code of ethics that applies to all our employees. Each of them must comply with our code of ethics as a condition to working with us. Our code of ethics requires our employees to:

- comply with applicable federal and state securities laws and uphold the rules governing capital markets
- conduct themselves with integrity and dignity and act ethically in their dealings with the public, clients and professional associates
- fulfill their duty of loyalty by acting solely in our clients' best interests
- act with independence, objectivity, skill, competence and diligence
- strive to provide long-term client satisfaction
- disclose any conflict of interest to our CEO/CCO
- adhere to our policies limiting outside business activities
- adhere to our policies limiting the giving or receiving of gifts and business entertainment
- report any violation of our compliance manual to our CEO/CCO as soon as possible
- submit reports of securities beneficially owned by them and their related persons, and submit reports of securities transactions by them and their related persons, subject to certain permitted exceptions

We prohibit our employees from investing in initial public offerings, and they must receive approval of our CCO before they invest in any private placement.

Our clients or prospective clients may request a copy of our code of ethics by writing to us or calling us at the address or phone number on the front of this brochure.

### **Participation or Interest in Client Transactions and Personal Trading**

Quest does not buy or sell securities for its own account.



Our employees must get our preapproval before every proposed personal trade and certify that they are not in the possession of material nonpublic information related to the trade. Furthermore, our employees may not purchase securities if, at the time of the proposed trade, the same securities are currently held in any of our clients' portfolios. If one of our employees holds securities that are subsequently purchased for any of our clients' portfolios, the employee must wait for all client holdings in the security to be sold before the employee may fully liquidate the security in his or her personal account or obtain CCO approval before adding to or reducing the investment in the security. Our employees may not include personal trades with aggregated client orders.

## **Item 12 – Brokerage Practices**

### **Broker Selection**

In selecting brokers or dealers to effect transactions for your account, we consider many factors related to the quality of execution services received, including:

- price and opportunity for price improvement
- economic stability of the firm
- reputation
- ability to provide professional services
- promptness of execution
- accuracy
- clearance and settlement capabilities
- quality of research received
- trading platform used
- trading style and strategy
- access to the market place

Because we look at all these factors, we may pay a broker a commission that is higher than what another broker might charge when the greater commission results in an overall economic benefit to all clients. For example, we may use a broker who provides useful research (which may be beneficial to all clients) instead of a broker that does not provide research, even if the broker that does not provide research charges a lower commission. In all cases, when

selecting a broker, we make a good faith determination that the amount of client commissions paid is reasonable in light of the value of products or services the broker provides.

### **Soft Dollar Benefits**

In some cases, we may cause our clients to pay higher commissions than those charged by other available broker-dealers in return for "soft dollar benefits." A "soft dollar" transaction occurs when we execute trades through a particular broker in return for receiving research and execution from that broker. We use soft dollar transactions for research and investment data provided by the executing broker and for third-party research and investment data paid for by the executing broker. We do not agree to pay a specific amount of commissions to any executing broker, and we use soft dollar credits only for services that facilitate the investment decision-making process. Our soft dollar arrangements are consistent with the CFA Institute Soft Dollar Standards.

"Research" is defined as lawful and appropriate assistance to us in the performance of our investment decision-making process. For example, research may include written reports, conference calls, faxes, email, and meetings with analysts. There are, generally, two sources of research:

1. *Proprietary research* is information generated inside a brokerage firm that is made available to us in return for commissions. There are no amounts required to be paid by us and no obligations by either party. We receive proprietary research from selected brokers.
2. *Third-party research* is provided when a broker agrees to provide research generated by a person outside the broker in return for commissions. Third-party research received includes written analysts' reports, conference calls, faxes, emails, online access and on-site meetings with analysts. This research is not readily available to the general public. We receive third-party research as indicated below regarding Commission Sharing Arrangements.

We may have an incentive to select a broker that will provide research or other services to us. However, we systematically evaluate the costs and benefits of using client brokerage for research, recognizing our best execution obligation and seeking the greatest possible long-term benefit to our clients. Services obtained through the use of client brokerage are for the benefit of all clients regardless of the paying entity.

We benefit from any research received in soft dollar transactions, because we do not have to produce or pay for the research, products or services received.

### **Evaluation of Research Obtained with Soft Dollars**

In all cases, consistent with the safe harbor provided for research under section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)"), we make a good faith determination that the commissions paid are reasonable in relation to the value of the brokerage and research services provided, either in terms of a particular transaction or our overall responsibility to our clients. We evaluate research based on the extent it assists us in our investment decision-making

process and consider the size and experience of the staff providing the information, accessibility, timelines of recommendations, and success rates of forecasting.

Our soft dollar committee meets periodically to determine whether the amounts of all commissions are reasonable in relation to the value of the brokerage and research services provided. At least twice a year, the committee reviews each applicable firm's soft dollar arrangements and allocations of soft dollar research services and products. Oversight and management of the committee is performed by the CCO.

### **Commission Sharing Arrangements**

We may also use commission sharing arrangements ("CSAs"), under which a portion of commissions generated at one broker is credited to us for use toward the purchase of Section 28(e) eligible research at another firm. Unlike traditional soft dollar arrangements, the use of CSAs allows us to choose a broker based on execution capability and not on research provided by the broker, since we can use credit generated at one broker to purchase research elsewhere. As a result, CSAs often allow us to get better execution *and* better research than traditional soft dollars.

We generally use CSAs when we believe that the execution at the CSA broker is better than the execution at the broker providing research in return for soft dollars.

### **Directed Brokerage**

You may direct us to use a specific broker for a number of reasons. For example, you may have a preexisting relationship with a particular broker or participate in a commission recapture program. If you direct us to use a specific broker, you must do so in writing.

There may be some consequences to directing brokerage. If you direct us to use a particular broker or dealer, any of the following might occur:

- We may not be able to negotiate commissions, obtain volume discounts, aggregate trades or achieve our obligation of best execution with respect to the transaction. Any of those consequences could result in increased costs to you.
- You could pay higher commissions or receive less favorable execution than our other clients.
- You may not be able to participate in an allocation of shares of a new issue if those new issue shares are provided by another broker.

If you have negotiated commission recapture programs with brokers and instruct us to use such brokers for at least a portion of your securities transactions, we will monitor commissions generated by transactions with those brokers.

## **Trade Aggregation and Allocation**

### **General**

Aggregating (grouping) our trades may allow us to execute equity trades in a timelier, more equitable manner. We generally aggregate trades among clients whose accounts can be traded at a given broker, and we vary the order of brokers we use to place trades. We will not aggregate a transaction if the practice is prohibited by or inconsistent with your advisory agreement with us or our firm's order allocation policy. We will not favor any client or account over another.

**Note:** The aggregation and allocation policies described here apply to trades in equity securities only. We buy and sell fixed income securities through a bidding process that does not generally present allocation issues, although we may sometimes group fixed income security trades. Furthermore, orders for shares of mutual funds or ETFs are generally fully filled and do not present allocation issues.

### **Initial Considerations**

When we aggregate trades, we first consider whether the trade is appropriate for you and consistent with your investment objectives and guidelines. We and the broker must reasonably believe that the order aggregation will benefit you and enable us to seek best execution for each client participating in the aggregated order. This belief is based on a good faith judgment at the time the order is placed for execution that price and quality of execution will be consistent with our obligation to seek best execution.

### **Allocation and Partially Filled Orders**

Before we enter an aggregated order, a written (including email) order ticket must be completed which identifies each client account participating in the order and the proposed allocation of the order, upon completion, to those clients. If the order cannot be executed in full at the same price or time, the securities actually purchased or sold by the close of each business day are allocated pro rata among the participating client accounts in accordance with the initial order ticket or other written statement of allocation.

We may make adjustments to this pro rata allocation of partially filled orders for several reasons, such as the avoidance of odd lots or de minimis numbers of shares, or sensitivity to total transaction cost. There may be instances when partially filled orders may adversely affect the size of the position or the price you pay or receive, as compared with the size of the position or price that you would have paid or received had no aggregation occurred.

If the order will be allocated in a manner other than that stated in the initial statement of allocation, a written explanation of the change must be provided to and approved by our CCO no later than the morning of the next business day following the execution of the aggregate trade.

### Transaction Costs and Records

Generally, each client that participates in the aggregated order does so at the average price for all separate transactions made to fill the order. Each such client also shares in the commissions on a pro rata basis in proportion to the client's participation. Under the client's agreement with the custodian or broker, transaction costs may be based on the number of shares traded for each client.

Our client account records separately reflect, for each account in which the aggregated transaction occurred, the securities which are held by, and bought and sold for, that account. Funds and securities for aggregated orders are clearly identified in our records and to the broker-dealers or other intermediaries handling the transactions, by the appropriate account numbers for each participating client.

### **Trade Errors**

When a trade error occurs, the client will retain any net gains resulting from the error correction, and we will compensate the client wholly for any loss resulting from the error.

## **Item 13 – Review of Accounts**

We continually monitor your securities holdings, and a member of our investment committee reviews your accounts at least quarterly to see if your asset allocation is consistent with your investment objectives, guidelines and restrictions. A member of our investment committee may review your account more frequently in response to material changes in your individual circumstances, the financial markets, political events or the general economic environment.

The members of our investment committee are Cameron Johnson (CEO and CCO), Monte Johnson (Chairman), Gregory Sherwood (President and Chief Investment Officer) and Douglas Goebel (Senior Vice President).

We issue written reports to our clients each quarter. Our reports for our direct portfolio management clients generally include a list of assets in your account, investment results for your account, and other statistical data about our account. Our reports for our subadvisory clients generally are limited to investment results, unless we and the subadvisory client agree otherwise.

We urge you to carefully review our reports and compare the statements that you receive from your custodian or broker to the reports we provide. The information in our reports may vary from custodial or broker statements based on accounting procedures, reporting dates or valuation methodologies of certain securities.

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

We must disclose if someone who is not a client provides an economic benefit to us for providing investment advice, or if we compensate any non-employee for referring potential clients to our firm. We have no such arrangements to report to you.

## **Item 15 – Custody**

We do not provide custodial services to our clients. Your assets must be held by a bank, registered broker-dealer or other "qualified custodian." You will receive statements directly from your custodian at least quarterly. We urge you to carefully review the custodial statements and compare them to the reports we send you. The information in our reports may vary from your custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities.

## **Item 16 – Investment Discretion**

Our authority in managing your account includes the full discretionary power to purchase, sell and exchange securities and other instruments, exercise all rights conferred on the holder of such assets, and reinvest all proceeds.

Your agreement with us gives us the authority to exercise full discretion. However, we observe investment limitations and restrictions that you provide to us in writing.

We do not advise or act on your behalf in legal proceedings involving companies whose securities are held in your account, including, but not limited to, the filing of class action settlement claim forms. You may, however, direct us to transmit copies of these forms to you or a third party. If you do, we will attempt to forward such forms in a timely manner.

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

### **General**

We generally vote proxies for our clients, but you may choose to vote proxies yourself. You can exercise this right by instructing us in writing to not vote proxies for your account. Additionally, we will not vote proxies for ERISA accounts if the plan documents specifically reserve the plan sponsor's right to vote proxies.

If you provide us with your proxy voting policy, we will vote in accordance with that policy. If you do not provide us with your proxy voting policy, we will vote in your best interests and in accordance with our established policies and procedures.

If we have a material conflict of interest in voting a particular action, we will generally notify you of the conflict. We will then have you vote the proxy or retain an independent third party to do so.

You may obtain (a) a copy of our complete proxy voting policies and procedures and (b) information on how proxies for your shares were voted. To do so, please call or write to Cameron Johnson, our CCO, at the phone number or address on the front of this brochure.

### **Directed Voting**

All of our clients may direct our vote on specific matters. If you direct us to vote on a specific matter, you must do so in writing.

## **Item 18 – Financial Information**

We must disclose any financial condition that could impair our ability to meet our contractual obligations to you. We must also disclose if we have been the subject of any bankruptcy proceeding within the last 10 years.

We have no such financial condition to disclose to you, and we have never been the subject of any bankruptcy proceeding.