

# ThomasPartners, Inc. Part 2A of Form ADV Brochure

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This brochure provides information about the qualifications and business practices of ThomasPartners, Inc. (“ThomasPartners” or “we”). If you have any questions about the contents of this brochure, please contact us at (781) 431-1430. 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. ThomasPartners is registered as an investment adviser with the SEC under the Investment Advisers Act of 1940 (the “Advisers Act”). Registration as an investment adviser with the SEC does not imply a certain level of skill or training.

Additional information about ThomasPartners is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 - Material Changes**

This brochure has undergone the following material changes since April 1, 2013:

- Revised disclosure language was added related to when step-out trades will be affected in client accounts, along with what fees and commissions are not included in wrap fees for Wrap Program Clients. These changes are reflected in Item 12.
- ThomasPartners participates as a portfolio manager of separate accounts in the Managed Account Connection® and Managed Account Access® wrap fee programs sponsored by Charles Schwab & Co., Inc. This change is reflected in Item 4.
- ThomasPartners changed its billing method from advance to arrears commencing with the third quarter 2013 billing period. This change is reflected in item 5.
- ThomasPartners has revised its disclosures with respect to order aggregation (for step-out trading) and trade rotation methodology to reflect its current practices. This change is reflected in item 12.
- As of April 16, 2014, ThomasPartners has updated the description of its strategies, as well as the sample types of risks that its clients should be aware of, where we believe such updates would be beneficial to investors. These changes are reflected in Items 4 and 7, respectively.

**If you would like to receive a copy of the updated Form ADV Part 2A disclosure brochure, please call 1-781-431-1430 or email [Thomaspartnersinfo@thomaspartnersinc.com](mailto:Thomaspartnersinfo@thomaspartnersinc.com). You can also find copies of our latest disclosure brochures on the website of the United States Securities and Exchange Commission (SEC) at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

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## Item 4. Advisory Business

ThomasPartners is an investment adviser whose primary business consists of managing investment accounts for clients on a discretionary basis, meaning that clients have granted ThomasPartners the authority to place trades in their accounts without consulting them on a trade-by-trade basis.

ThomasPartners generally invests in dividend paying stocks from companies that have the ability to grow their dividends. We primarily invest in companies with a minimum market capitalization of \$1 billion. Most of our stocks are large-cap U.S.-based, with lesser allocations to mid- and small-cap common stocks, international common stocks (in the form of American depository receipts and ordinary shares, and domestic Master Limited Partnerships (MLPs) or Real Estate Investment Trusts (REITs). Some exchange-traded funds (ETFs) may also be used for indirect MLP exposure.

There are two versions of the ThomasPartners Dividend Growth Strategy. ThomasPartners Dividend Growth Strategy (K-1 Generating) has direct exposure to MLPs and generates IRS Schedule K-1 tax forms. The other version, ThomasPartners Dividend Growth Strategy (Non-K-1 Generating), uses ETFs to provide exposure to MLPs and therefore does not generate IRS Schedule K-1 tax forms. Both strategies may also invest in REITs.

Where appropriate to meet specific client needs and/or risk preferences, we may also invest in fixed income securities, including treasuries, agencies, and corporate and/or municipal bonds, as well as mutual funds or ETFs. Fixed income securities may also include investments directly or through ETF's invested in high-yield securities.

Clients may impose reasonable restrictions on the management of the account subject to approval by ThomasPartners. Once agreed upon, it is the client's responsibility to inform ThomasPartners in writing if something changes and the restriction(s) is (are) no longer valid.

Our clients include those with whom we have a direct contractual relationship through our investment advisory agreement, those who have enrolled in asset-based wrap fee programs sponsored by dual-registrant broker-dealers and investment advisers who may or may not be affiliated with ThomasPartners, and clients where ThomasPartners acts as a sub-adviser. Wrap fee programs, which are described in more detail in the applicable disclosure brochures published by their respective sponsors, bundle or "wrap" investment advisory, trade execution and custodial services into a package for which the client pays a single fee to the sponsor based on a percentage of the assets enrolled in the service. Program sponsors pay ThomasPartners' investment advisory fee.

Among the wrap fee programs in which ThomasPartners participates as a portfolio manager of separate accounts are the Managed Account Access<sup>®</sup> and Managed Account Connection<sup>™</sup> programs (the "Managed Account Programs"), sponsored by Charles Schwab & Co., Inc. ("Schwab"). More specific information about the Managed Account Programs and the fees paid by Managed Account Program clients to participate in the program appears in Schwab's disclosure brochure for that program, which is provided to program clients.

ThomasPartners was founded in 2001, and purchased by The Charles Schwab Corporation (“CSCorp.”) in December of 2012. ThomasPartners is 100% owned by CSCorp. Prior to ThomasPartners’ acquisition by CSCorp., William McMahon was ThomasPartners’ Chief Investment Officer, a role in which he continues today.

As of December 31, 2013, ThomasPartners managed \$4,222,970,635. on a discretionary basis and \$18,852,425. on a non-discretionary basis.

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

### **Amount & Calculation of Fees**

For new accounts whose owners contract directly with ThomasPartners for advisory services (i.e., not through a wrap fee program or sub-advisory arrangement in which the client’s advisory agreement is with another investment adviser), ThomasPartners charges a quarterly asset-based fee (“Fee”), applying the annual percentage rates (“APR”) shown below on assets under management:

- 1.00%, or 100 basis points (“bps”) on amounts up to \$2 million, plus
- 0.75%, or 75 bps, on amounts between \$2 million and \$5 million, plus
- 0.60%, or 60 bps, on amounts greater than \$5 million.

ThomasPartners’ Fee schedule is subject to a \$625 quarterly minimum. Existing clients may pay more or less than new clients, based on the fee schedules in effect when they became clients. Fees for wrap fee programs or other programs in which ThomasPartners acts as a sub-advisor differ from those above, and ThomasPartners’ investment advisory fee may be substantially less in such programs. In the Managed Account Programs sponsored by Schwab, ThomasPartners is entitled to receive an annual fee from Schwab, payable monthly, equal to 0.35% on all program assets. ThomasPartners does not enter into agreements directly with Managed Account Programs clients and accordingly does not receive direct compensation from or negotiate fees with them. Fee schedules may be negotiated at the discretion of ThomasPartners. We may waive all or a portion of management fees for employees.

For the accounts of some clients referred to ThomasPartners through a solicitor’s agreement (i.e., an agreement by which ThomasPartners agrees to pay a fee for such referrals), the APR upon which the Fee is calculated may be up to 0.25% or 25 bps higher than those shown above, which is reflected in the applicable investment advisory agreement entered into with such clients. Fees are not negotiable, except in rare circumstances.

ThomasPartners will charge the Fee in arrears, at the end of each quarter, by applying the APR to account balances on the last day of the preceding quarter and then dividing by four. We normally deduct the Fee directly from client accounts but will consider invoicing billing requests.

### **Costs in Addition to the Fee**

ThomasPartners clients whose accounts are custodied at unaffiliated broker-dealers will pay transaction fees, commissions and/or mark-ups and mark-downs on the purchase and sale of

securities in their accounts unless those accounts are enrolled in wrap fee programs sponsored by the custodian/broker-dealer. Such costs will be paid directly from clients' accounts to the broker-dealer who completes the purchase or sale.

ThomasPartners' affiliated broker-dealer, Schwab, will waive all Schwab trading commissions in ThomasPartners' managed accounts custodied at Schwab. In the Schwab Managed Account Programs sponsored by Schwab, the wrap fee includes Schwab's brokerage services. Schwab's waiver does not extend to accounts not managed by ThomasPartners, or to any other broker fees, account fees or expenses, such as exchange process fees, transfer taxes, third-party mutual fund transaction fees on funds transferred into an account and liquidated, certain contingent short-term redemption fees, periodic distribution fees, certificate delivery fees, reorganization fees, electronic funds or wire transfer fees, and any other similar costs or charges.

For each arrangement described above, the Fee does not cover certain costs or charges imposed by third parties, including odd-lot differentials, exchange fees, contingent redemption fees, and transfer taxes mandated by law. Custodians, including Schwab, may also impose additional charges for special services elected by clients, including electronic fund and wire transfer fees, certificate delivery fees, and reorganization fees.

In addition to the Fee, mutual funds and ETFs are subject to investment advisory, administrative, distribution, transfer agent, custodial, legal, audit, and other customary fees and expenses related to investments in investment companies, as set forth in the prospectuses of the funds. These fees and expenses are paid by the funds but ultimately are borne by clients as fund shareholders, and are in addition to the Fee. These fees and expenses will generally not be deducted from the Fee. The securities purchased by ThomasPartners for client accounts are available without retaining ThomasPartners as investment advisor and without paying the Fee, subject to applicable commissions and/or transaction charges.

Conversely, hiring ThomasPartners as an investment adviser may provide access to certain mutual funds, ETFs, or classes of funds that clients might not normally be qualified to purchase. If an account leaves ThomasPartners' management, these investments may be liquidated or exchanged for the share class corresponding to the size of a client's individual investment in a fund. Further, to the extent that cash used for investment in securities selected by ThomasPartners comes from redemptions of a client's mutual fund shares, ETFs, or other investments, there may be tax consequences or additional costs from sales charges previously paid and redemption fees incurred. Such redemption fees would be in addition to the Fee on those assets.

### **Compensation Earned by ThomasPartners Affiliates**

Schwab and its affiliates may receive an investment management fee for managing an affiliated mutual fund or ETF, or other forms of compensation in connection with the operation and/or sale of shares of affiliated or unaffiliated funds, to the extent permitted by applicable law. The fee arrangements will be disclosed upon request of a client and are available in the applicable fund's prospectus. Schwab may also receive compensation in connection with cash that is on deposit in accounts but not invested in a money market fund.

If a client's account is custodied at Schwab, cash in the account may be invested in a money market fund that is managed or distributed by a Schwab affiliate, including funds sponsored by Charles Schwab Investment Management, Inc. ("CSIM"). These money market funds include Schwab Money Market Funds, Schwab Money Market Value Advantage Funds, and Schwab Money Market Sweep Funds (collectively, the "Schwab Money Funds"). Cash may also be invested in a sweep vehicle sponsored by Schwab Bank (together with the Schwab Money Funds, referred to herein as the "Schwab Sweep Vehicles"). Finally, cash may also be invested in the Schwab One® product or maintained with Schwab as free credit balances. Although ThomasPartners does not earn additional compensation from such cash investments, Schwab and its other affiliates may. This presents a conflict of interest. More information about the money fund sweep feature and these other cash sweep options may be found in clients' brokerage account agreement(s).

CSIM or another affiliate of Schwab will earn management and administrative fees from the Schwab Money Funds as set forth in the prospectus or other disclosure documents. CSIM and other affiliates also may receive other compensation in connection with the operation and/or sale of shares of the Schwab Sweep Vehicles to the extent permitted by applicable law, such as transfer agent and shareholder servicing fees (see the prospectus and statement of additional information for the Schwab Money Funds). However, for retirement accounts including IRAs and accounts subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), the Fee is not charged on the portion of clients' ThomasPartners-managed accounts invested in the Schwab Sweep Vehicles. For accounts managed by ThomasPartners in the Managed Account Programs sponsored by Schwab, the treatment of assets invested in the Schwab Sweep Vehicles is as described in the disclosure brochure for that program.

Schwab may also earn interest, generally at money market rates, on aggregate cash balances held in Schwab's bank accounts, which include assets in accounts enrolled in a program that are awaiting investment or pending distribution. Assets awaiting investment include both cash that a client has deposited into their account and un-invested amounts held in a client's account as a result of an authorized transaction. Schwab may earn interest on such amounts through the beginning of the second business day following the deposit or transaction in question. Schwab may earn interest on assets pending distribution from a client's account beginning on the day the assets are debited from clients' accounts and continuing until the distribution check is presented for payment, the timing of which is beyond Schwab's control.

These potential conflicts of interest are mitigated by the fact that ThomasPartners' investment decision-making process is independent of and separate from both Schwab and CSIM.

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

ThomasPartners does not charge any performance based fees.

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

ThomasPartners primarily provides investment management services to individuals, associated trusts, estates, charitable organizations, pension and profit sharing plans, foundations and endowments, state or municipal government entities and other corporations, business entities or investment advisors.



ThomasPartners seeks clients with assets of at least \$250,000 per account. Exceptions to this policy are made at ThomasPartners' discretion. Certain retirement accounts may not be eligible. Clients who receive portfolio management services from ThomasPartners as a result of a referral from Schwab, through the Managed Account Programs or through another investment adviser (e.g., a wrap fee program or arrangement by which ThomasPartners acts as sub-advisor to clients' accounts) may be subject to a lower minimum.

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

ThomasPartners uses a quantitative and qualitative screening method to identify domestic and foreign companies primarily with minimum market capitalizations of more than \$1 billion and with histories of dividend growth. We use other methods to help ascertain a company's current dividend yield and past dividend growth, and to estimate dividend growth potential. We then analyze the companies with respect to:

- Free cash flow;
- Normalized earnings power;
- Balance sheet strength; and
- Return on invested capital.

Finally, we use a discounted cash flow tool and/or other appropriate valuation tools to develop intrinsic value estimates for the stocks of companies identified through the methods described above. In response to the needs or preferences of particular clients, ThomasPartners may also allocate a portion of certain accounts to fixed income securities.

### **Risk of Loss**

There are inherent risks to investing in ThomasPartners' dividend growth strategies including but not limited to:

#### ***Management Risks***

ThomasPartners applies its investment techniques and risk analyses in making investment decisions or recommendations for its clients, but there can be no guarantee that they will produce the desired results. In addition, there is no guarantee that a strategy based on historical information will produce the desired results in the future and, if market dynamics change, the effectiveness of the strategies may be limited. Each strategy runs the risk that ThomasPartners' investment techniques will fail to produce the desired results. There also can be no assurance that all of the ThomasPartners' key personnel will continue to be associated with the firm for any length of time.

#### ***Investment Risks***

Investments in securities, including ETFs and mutual funds and the securities that they in turn invest in, involve various risks, including those summarized below. Clients and prospective clients should be aware that investing in securities involves risk of loss that clients should be prepared to bear.

***Risk of Dividend Cuts***

The risk that companies may cut their dividends causing investors to sell the stock and the price to fall.

***ETF General Risks***

ETFs in which the strategies may invest involve certain inherent risks generally associated with investments in a portfolio of underlying securities, including the risk that the general level of the underlying security prices may decline, thereby adversely affecting the value of each unit of the ETF. Moreover, an ETF may not fully replicate the performance of its benchmark index because of the temporary unavailability of certain index securities in the secondary market or discrepancies between the ETF and the index with respect to the weighting of securities or the number of securities held. ETFs in which the strategies invest have their own fees and expenses as set forth in the ETF prospectuses. Although ETFs themselves are generally classified as equities, the underlying holdings of ETFs can include a variety of asset classes, including but not limited to equities and bonds. A full disclosure of the specific risks of ETFs is located in the respective prospectus of each fund.

ETFs may have exposure to derivative instruments, such as futures contracts, forward contracts, options, and swaps. There is a risk that a derivative may not perform as expected. The main risk with derivatives is that some types can amplify a gain or loss, potentially earning or losing substantially more money than the actual cost of the derivative; or that the counterparty may fail to honor its contract terms, causing a loss for the ETF. Use of these instruments may also involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk, and the risk that an ETF could not close out a position when it would be most advantageous to do so.

***Market / Systemic Risks***

Equity and Fixed Income markets rise and fall daily. The performance of client investments are, to varying degrees, tied to these markets. When markets fall, the value of a client's investments will fluctuate, which means a client could lose money.

***Asset Allocation / Strategy / Diversification Risks***

The asset classes in which the strategies seek investment exposure can perform differently from each other at any given time (as well as over the long term), so the strategies will be affected by its allocation among the various asset classes. The asset allocation decisions can result in more account concentration in a certain asset class or classes, which could reduce overall return if the concentrated assets underperform expectations. Depending on market conditions there may be times where diversified clients' accounts perform worse than less diversified clients' accounts.

***Strategy Risks***

There are the risks associated with the long-term core strategic holdings for each of the strategies.

***Trading / Liquidity Risks***

A particular investment may be difficult to purchase or sell or may become difficult to sell after being purchased for a client account. ThomasPartners may be unable to sell securities on behalf of a client at an advantageous time and/or price due to then-existing trading market conditions.

***Large Investment Risks***

Clients may collectively account for a large portion of the assets in certain securities, MLPs, or REITs. A decision by ThomasPartners to buy or sell some or all of a particular security, MLP, or REIT where clients hold a significant portion of such, may negatively impact the value of that security.

***Interest Rate Risks***

When interest rates rise, bond prices usually fall, and with them the value of a mutual fund or ETF holding the bonds. A decline in interest rates generally raises bond prices, and with them potentially the value of a bond fund or ETF, but could also hurt the performance of a mutual fund or ETF by lowering its yield. The longer the duration of the investments held by a mutual fund or ETF, the more sensitive to interest rate movements its value is likely to be.

***High-Yield Risks***

Investments in mutual funds and ETFs that hold high-yield securities and unrated securities of similar credit quality (sometimes called junk bonds) are subject to greater levels of credit and liquidity risks. High-yield securities and the mutual funds or ETF's that invest in them may be considered speculative.

***Government Securities Risks***

Many U.S.-government securities are not backed by the full faith and credit of the United States government, which means they are neither issued nor guaranteed by the U.S. Treasury. Certain issuers of securities, such as the Federal Home Loan Banks (FHLB), maintain limited lines of credit with the U.S. Treasury and there can be no assurance that the U.S. government will provide financial support to securities of its agencies and instrumentalities if it is not obligated to do so under law.

***State and Regional Risks***

To the extent that a security, mutual fund or ETF invested in securities from a given state or geographic region, its value and performance could be affected by local, state, and regional factors, including erosion of the tax base and changes in the economic climate. National governmental actions, such as the elimination of tax-exempt status, also could affect performance. In addition, a mutual fund may be more sensitive to adverse economic, business, or political developments if a substantial portion of it is invested in municipal securities that are financing similar projects.

***MLP Risk***

MLPs are limited partnerships that are publicly traded and which have the tax benefits of a limited partnership and the liquidity of a publicly traded company. Investments in securities (units) MLPs involve risks that differ from an investment in common stock. Holders of the units of MLPs have more limited control and limited rights to vote on matters affecting the partnership. For example, unit holders may not elect the general partner or the directors of the general partner and they have limited ability to remove a MLP's general partner. MLPs may issue additional common units without unit holder approval, which would dilute existing unit holders. In addition, conflicts of interest may exist between common unit holders, subordinated unit holders and the general partner of a MLP, including a conflict arising as a result of incentive distribution payments. As an

income producing investment, MLPs could be affected by increases in interest rates and inflation. There are also certain tax risks associated with an investment in units of MLPs.

### ***Custodian Risks***

If the custodian of the account (chosen by the client) were to go out of business, client assets may only be protected up to the Securities Investor Protection Corporation ("SIPC") limits.

## **Securities Risks**

### ***Equity-Related Risks***

#### ***General Risks***

The prices of equity securities, and thus the value of mutual funds, MLPs, ETFs or REITs that invest in them, will rise and fall. These price movements may result from factors affecting individual companies, industries or the securities market as a whole. Individual companies may report poor results or be negatively affected by industry and/or economic trends and developments. The prices of securities issued by such companies may suffer a decline in response. In addition, the equity market tends to move in cycles, which may cause stock prices to fall over short or extended periods of time.

#### ***Large- and Mid-Cap Risks***

Mutual funds, MLPs, ETFs or REITs which focus on large- and/or mid-cap segments of the U.S. stock market bear the risk that these types of stocks tend to go in and out of favor based on market and economic conditions. However, stocks of mid-cap companies tend to be more volatile than those of large-cap companies because mid-cap companies tend to be more susceptible to adverse business or economic events than larger, more established companies. During a period when large- and mid-cap U.S. stocks fall behind other types of investments—bonds or small-cap stocks, for instance—the performance of investment strategies focused on large- and/or mid-cap stocks will lag the performance of these other investments.

#### ***Small-Cap and International Risks***

Historically, small-cap and international stocks have been riskier than large- and mid-cap U.S. stocks (also see Foreign Investment section below for additional information). During a period when small-cap and/or international stocks fall behind other types of investments — large- and mid-cap U.S. stocks, for instance—the performance of investment strategies focused on small-cap or international stocks may lag the performance of these other investments.

### ***Fixed Income–Related Risks***

#### ***General Risks***

Bond markets rise and fall daily, and fixed income investments, which generally also include instruments with variable or floating rates (including cash and cash-like investments), are subject to various risks. As with any investment whose performance is tied to bond markets, the value of a fixed income securities, mutual fund or ETF will fluctuate, which means that you could lose money.

### *Interest Rate Risks*

When interest rates rise, bond prices usually fall, and with them the value of an ETF or mutual fund holding the bonds. A decline in interest rates generally raises bond prices, and with them potentially the value of a bond fund, but could also hurt the performance of an ETF or mutual fund by lowering its yield (which could increase reinvestment risk).

### *Credit Risks*

A decline in the credit quality of a fixed income investment could cause the value of a fixed income security, ETF or mutual fund to fall. The securities, ETFs or mutual funds could lose value if the issuer or guarantor of an investment fails to make timely principal or interest payments or otherwise honor its obligations. The emphasis of a fixed income strategy on quality and preservation of capital also could cause a securities, ETFs or mutual funds to underperform certain other types of bond investments, particularly those that take greater maturity and credit risks.

### *Mutual Fund Risks*

Mutual fund managers may base investment decisions for funds using historical information. There is no guarantee that a strategy based on historical information will produce the desired results in the future. In addition, if market dynamics change, the effectiveness of that kind of strategy may be limited. Either of these risks may cause the investment strategy of a particular fund to underperform its benchmark or similar funds. Mutual Funds in which the strategies invest have their own fees and expenses as set forth in the fund prospectuses.

Mutual funds may have exposure to derivative instruments, such as futures contracts, forward contracts, options, and swaps. There is a risk that a derivative may not perform as expected. The main risk with derivatives is that some types of derivatives can amplify a gain or loss, potentially earning or losing substantially more money than the actual cost of the derivative; or that the counterparty may fail to honor its contract terms, causing a loss for the fund. Use of these instruments may also involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk, and the risk that a fund could not close out a position when it would be most advantageous to do so.

### *Foreign Risks*

Investments in mutual funds that hold securities of foreign issuers or securities with credit or liquidity enhancements provided by foreign entities may involve certain risks such as adverse changes in foreign economic, political, regulatory, and other conditions; differing accounting, auditing, financial reporting, and legal standards and practices; differing securities market structures; and higher transaction costs. In addition, sovereign risk, or the risk that a government may become unwilling or unable to meet its loan obligations or guarantees, could increase the credit risk of financial institutions connected to that particular country.

### *Foreign Investments–Related Risks*

#### *General Risks*

Investments in securities of foreign issuers may involve certain risks that are greater than those associated with investments in securities of U.S. issuers. These include risks of adverse changes in foreign economic, political, regulatory, and other conditions; changes in currency exchange rates

or exchange control regulations (including limitations on currency movements and exchanges); differing accounting, auditing, financial reporting, foreign taxes, and legal standards and practices; differing securities market structures; differing trading and settlement practices; and higher transaction costs.

#### *Emerging Markets Risks*

These and other risks (e.g., nationalization, expropriation, or other confiscation of assets of foreign issuers) are greater for those ETFs or mutual funds investing in companies tied economically to emerging countries, the economies of which tend to be more volatile than the economies of developed countries.

#### *Geopolitical / Disruption-of-Markets Risks*

Geopolitical events may adversely affect global economies and markets and thereby decrease the value of and/or the ease of trading the ETFs or mutual funds invested in those affected markets. Those events as well as other changes in foreign and domestic economic and political conditions could adversely affect the value of a strategy's investments.

#### *Currency Risks*

Fluctuations in exchange rates may adversely affect the value of a strategy's foreign currency holdings and investments denominated in foreign currencies.

#### ***Risks Related to Other Asset Classes***

##### *Real Estate Risks*

REITs may be adversely affected by factors affecting the real estate industry, which may include changes in interest rates and social and economic trends. REITs may also be subject to the risk of fluctuations in income from underlying real estate assets, poor performance by the REIT's manager, prepayments and defaults by borrowers, adverse changes in tax laws, and, with respect to U.S. REITs, their failure to qualify for the special tax treatment granted to REITs under the Internal Revenue Code of 1986 and/or to maintain exempt status under the Investment Company Act.

##### *Tax Risks*

ThomasPartners strategies are not designed to address specific tax objectives. Tax treatment of dividends under federal and state law may change over time. Ongoing investment income, capital gains, capital losses, and miscellaneous deductions for some master limited partnerships are reported annually on the Schedule K-1, and when master limited partnerships are sold in a taxable account, proceeds will be reported on Form 1099-B. The Schedule K-1 is mailed separately to clients each year and needs to be included in the clients' income tax return. In cases where the entity generating the Schedule K-1 files for a tax extension beyond April 15, clients may receive their Schedule K-1 after the due date for their income tax return. Individual taxpayers who do not request a filing extension may need to file an amended federal and/or state tax return if they receive their Schedule K-1 after filing their original return. Also, gains and losses associated with some commodities may be taxed differently than standard short-term and long-term capital gains and losses. Clients should consult their professional tax advisors for help with their unique situations.

### ***Limitations of Disclosure***

The foregoing list of risks does not purport to be a complete enumeration or explanation of the risks involved in ThomasPartners' strategies. The strategies may develop and change over time, which could subject clients to additional and different risk factors. No assurance can be made that profits will be achieved or that substantial losses will not be incurred.

## **Item 9. Disciplinary Information**

ThomasPartners and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

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

ThomasPartners is under common control with Schwab. Schwab is a wholly owned subsidiary of CSCorp., a Delaware corporation that is publicly traded and listed on the NYSE (symbol: SCHW). Other wholly owned subsidiaries of CSCorp. are engaged in investment advisory, brokerage, trust, custody, or banking services.

CSIM provides advisory and administrative services to certain proprietary mutual funds marketed under the Schwab Funds® and Schwab ETFs™ names and under the Laudus® name, which may be recommended to ThomasPartners clients. CSIM also acts as a separate account manager for the equity strategies in the Managed Account Connection™ program ("MAC") client accounts. MAC is a wrap-fee program sponsored by Schwab. MAC client accounts are managed by CSIM. CSIM utilizes Schwab Equity Ratings® research provided by Schwab as well as, among other things, CSIM's own specialized software models to screen stocks for potential inclusion or exclusion in MAC client accounts.

If a client's account is custodied at Schwab, ThomasPartners may use money market funds of our affiliate, CSIM, for which CSIM receives investment advisory fees. For more information about CSIM fund expenses, investment management, and sweep features associated with a client's money market fund, please review the prospectus, which can be found at [www.schwab.com/prospectus](http://www.schwab.com/prospectus).

ThomasPartners serves as a portfolio manager in several wrap fee programs, including the Managed Account Programs sponsored by Schwab. These wrap fee programs are arrangements in which investment advisory services, brokerage execution services and custody are provided by a sponsor for a single predetermined "wrap" fee (regardless of the number of trades completed by a client). Sometimes, the ThomasPartners' Fee is charged separately from the wrap sponsor's fee. Generally, clients participating in a wrap fee program ("Wrap Program Clients") pay this single, all-inclusive fee quarterly to the program sponsor, based on the net assets under management. ThomasPartners receives from the program sponsor a portion of the wrap fee for the portfolio management services it provides. For the Managed Account Programs sponsored by Schwab, each program sponsor has prepared a brochure which contains detailed information about its wrap fee program, including the wrap fee charged. Copies of each brochure are available from the program sponsor upon request. Wrap Program Clients should note that ThomasPartners may execute transactions for their accounts through the wrap sponsor if directed by the client or wrap

sponsor (“Directed Trades”). Directed Trades may be less favorable in some respects than other trades because ThomasPartners may not have the ability to negotiate price or take advantage of combined orders or volume discounts with Directed Trades.

Schwab may effect securities transactions for ThomasPartners’ clients in Managed Account Programs on an agency basis.

ThomasPartners also acts as investment adviser in certain accounts through sub-advisory arrangements with other investment advisers. In these situations, ThomasPartners may or may not have a direct investment advisory agreement with the client.

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

ThomasPartners has adopted a written Code of Ethics (the “Code”) pursuant to Rule 204A-1 under the Advisers Act to prevent conflicts of interest as well as the appearance of conflicts of interest. ThomasPartners owes a fiduciary duty to its clients to avoid activities, interests and relationships that run contrary to the best interests of its clients. ThomasPartners will place clients’ interests ahead of ThomasPartners’, engage in personal investing that is in full compliance with ThomasPartners’ Code, and avoid taking advantage of ThomasPartners’ position. The Code prohibits employees from trading in certain securities and also closely monitors employees making personal investments in securities traded by clients. Employees are required to (1) pre-clear certain personal securities transactions, (2) report personal securities transactions on at least a quarterly basis, and (3) provide ThomasPartners with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which such employees have a direct or indirect beneficial interest. A copy of ThomasPartners’ Code is available upon request.

## **Item 12. Brokerage Practices**

ThomasPartners’ principal objective in entering client trades is to obtain best execution for clients’ transactions. When placing securities transactions, ThomasPartners may execute some or all such transactions through the broker-dealer custodians of clients’ assets to the extent consistent with best execution practices. We may place fixed-income trades or certain equity trades with another broker, in the interest of obtaining best execution. Client trades for certain wrap fee programs are executed only with the broker-dealer that sponsors the program and, as a result, are unable to accommodate step out trades discussed further below.

Schwab, a related person of ThomasPartners, is a registered broker-dealer that effects securities transactions for its brokerage customers. Schwab may act as a broker-dealer in transactions in a client’s account. Whether or not a client has selected Schwab as custodian, ThomasPartners may execute some or all portfolio transactions through Schwab and/or Schwab’s designated market makers (together, the “Directed Firm”) to the extent consistent with best execution practices. Although the Directed Firm will not charge commissions or commission equivalents in connection with transactions in a client’s portfolio custodied with the Directed Firm, there may be other costs or expenses associated with the use of the Directed Firm. This may create a potential



conflict of interest, because Schwab may have referred the client to ThomasPartners, because Schwab is an affiliate of ThomasPartners, and because of the arrangements Schwab has with its designated market makers.

All client accounts will be valued using prices provided by Schwab; however, in cases where a price is not provided by Schwab, is unavailable or deemed by ThomasPartners to be unreliable, ThomasPartners will utilize the next trusted custodial data source. Any securities remaining un-priced shall generally be valued at prices provided by Bloomberg. Any securities for which a price is not provided by an independent third party will be valued at fair market value as determined by ThomasPartners in accordance with established procedures.

ThomasPartners typically aggregates trades as part of a block, but may also trade securities on an individual basis. When orders come into the trade order management system (“OMS”) around the same time that match in security, custodian, and direction, either buy or sell, ThomasPartners may choose to aggregate them as part of a block when such aggregation is consistent with the ThomasPartners’ duty to seek best execution for a client and is consistent with the terms of the investment advisory agreement. For daily trading, client trades for each broker/custodian constitute a separate block. ThomasPartners utilizes OMS software to facilitate this process, which helps with best execution and provides clients with an average price for that respective trade order.

The overriding objective of ThomasPartners’ trade allocation procedure is to achieve fair and equitable treatment of its clients. ThomasPartners’ procedures are designed to provide that trade allocations are timely, that no set of trade allocations is accomplished to the unfair advantage of one client over another, and that over time our client accounts are treated equitably, even though a specific trade may have the effect of benefiting one account over another when viewed in isolation.

The typical daily trade order process is to execute trades in the order in which the trades are received by the trading desk and aggregation of trades by broker-dealer custodian is typically performed to the extent practicable and beneficial to clients. In addition to our daily management of individual accounts, our Investment Team may decide to buy or sell a specific security for a large group of clients (“Strategy Trades”). In these cases, we aggregate (bundle) the orders in the form of block trades by broker-dealer custodian as noted above.

In addition, ThomasPartners may instruct the broker-dealer that executes a transaction to allocate, or “step-out” a portion, or the entirety of such transaction to another broker-dealer (the “stepped-out broker”), especially when ThomasPartners is executing a Strategy Trade in clients’ accounts. The stepped-out broker would then settle and complete the designated portion of the transactions, and the executing broker would then settle and complete the designated portion of the transaction that has not been stepped-out. At times, there may be multiple stepped-out brokers receiving portions of a Strategy Trade. Each broker-dealer may receive a commission or brokerage fee with respect to that portion of the transaction that it settles and completes.

For Wrap Program Clients, the wrap fee does not cover commissions or brokerage fees for those broker-dealers who may receive such fees with respect to that portion of the transaction that it

settles and completes. If applicable, these commissions and brokerage fees generally are included in the price of the security and are not shown separately on a confirmation or statement. The wrap fee or all-inclusive fee described above will not be reduced or offset by these fees. Instead, any additional fees will reduce the overall return of a Wrap Program Client's account.

ThomasPartners will typically aggregate client trades across broker-dealer custodians which can facilitate and participate in step-out trades ("Step-Out Clients"). Step-Out Clients will represent one block in the trade rotation process. Certain program sponsors and directed brokers are unable to accommodate step out trades and as a result, the respective trades will occur as a separate block in the rotation. When executing a Strategy Trade, the trading desk typically utilizes a rotation for each client broker-dealer custodian including aggregating Step-Out Clients as one block.

In addition, ThomasPartners may choose not to step out certain client trades subject to best execution. In executing a Strategy Trade, there may be instances when ThomasPartners does not complete all trades for all client accounts for the same security or securities during the same day. In such instances, for those client accounts in which trading was incomplete, ThomasPartners will use a process to allocate executed trades pro-rata for the applicable client trading block(s).

The trade rotation and pro-rata processes are designed to treat clients equitably and, over time, to avoid unfairly advantaging one client or group of client account(s) over another client or group of client account(s). Client accounts traded on different days may receive different prices and/or additional fees. For block trades, client accounts traded within the block (through the same broker-dealer custodian) will receive the same trading price.

ThomasPartners will evaluate the quality and cost of trade execution services received from broker-dealers custodians on a periodic and systematic basis. As part of the evaluations, ThomasPartners will consider the quality and cost of trade execution services available from alternative broker-dealers, market makers, and market centers. The determinative factor is whether the transaction represents the best qualitative and quantitative execution for the client at fair value and not solely determined by the lowest commission. ThomasPartners considers the full range and quality of the broker's trade execution service in selecting brokers to meet best execution obligations, and may not pay the lowest commission rate available. These things being equal or fairly equal among brokers, the following qualitative factors, among others, may be considered when performing ThomasPartners' periodic evaluation of its brokerage arrangements and the execution quality of client trades:

- Trading capabilities, including execution speed and ability to source liquidity.
- Commissions and/or fees both in aggregate and on a per share basis.
- Capital strength and stability.
- Execution, clearance and settlement processing.
- Use of technology and other special services.
- Responsiveness.
- Internal quantitative research using third party data (Bloomberg, Autex & etc.).

- Reliability, integrity and reputation.
- Ability to handle large block trades and large volumes of trades.
- Whether a firm is publicly traded or private entity.
- The nature and value of pre and post-traded analysis provided.
- Research services and relevant market and equity news, information, and data.

The bond market is an over-the-counter market, so in most instances using block trades when practical provides best price and execution. The reason for this is there is less liquidity for odd-lot bond trades (those less than \$1 million) in the over-the-counter market than there is for stocks in an exchange-traded market. Therefore, when we want to buy or sell a certain fixed-income security for multiple accounts, we always consider performing the buy or sell transaction as a single block trade.

We will not bundle buy or sell transactions for your accounts in some instances, such as:

- when the proposed trade is not in the best interests of your account;
- if you have asked ThomasPartners to use certain broker/dealers, then such orders may be traded separately;
- when our traders and/or portfolio managers determine that a block trade is not appropriate because of market conditions; and
- Portfolio Managers must effect the transactions at different prices, making aggregation unfeasible.

### **Soft Dollars**

ThomasPartners does not actively seek out soft dollar arrangements; however, due to its affiliation with Schwab, and participation in certain custodial institutional programs, ThomasPartners may receive benefits that it would not otherwise receive, if we did not have an established relationship with these companies. These benefits may include trading, custody, reporting, technology, software and related services that assist us in managing and administering our clients' accounts. Other services intended to help ThomasPartners manage and further develop its advisory practices include, but are not limited to, performance reporting, financial planning, educational conferences and third party investment research, which ThomasPartners may use to service all or some substantial number of our clients' accounts.

### **Trade Errors**

ThomasPartners has internal controls designed to help prevent trade errors from occurring. On those occasions when such an error nonetheless occurs, ThomasPartners will use reasonable efforts to correct the error as soon as possible. The goal of error correction is to make the client "whole," regardless of the cost to ThomasPartners. ThomasPartners may, when practicable and appropriate, net gains from losses in the resolution of such error.

### **Item 13. Review of Accounts**

Client accounts are reviewed on an annual basis by ThomasPartners investment professionals. The annual reviews typically focus on the client's personal financial situation, liquidity needs, and comfort with risk level; a review of account restrictions; an overview of the client's current portfolio; and any questions the client may have on their accounts and strategies. Reviews of accounts in Wrap Fee Programs may be performed by personnel of the wrap fee sponsor. Reviews of accounts custodied at Schwab may be assisted by Schwab personnel.

We send clients quarterly written reports, summarizing the content, asset mix, and performance of their ThomasPartners' managed accounts, as well as an annual tax summary that provides important information to help clients in filing their income tax returns. In addition, clients receive monthly or quarterly account statements from their custodians.

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

ThomasPartners may recommend that clients establish brokerage accounts with Schwab, our affiliated registered broker-dealer, to maintain custody of clients' assets and to effect trades for their accounts. Schwab provides ThomasPartners with access to its institutional trading and operations services, which are typically not available to Schwab retail clients. Schwab's services include research, brokerage, custody, and access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment. Schwab also makes available to ThomasPartners other products and services that benefit us but may not benefit clients' accounts. Some of these other products and services assist ThomasPartners in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information, and other market data; facilitate payment of ThomasPartners' Fees from its clients' accounts; and assist with back-office support, recordkeeping, and client reporting. Many of these services generally may be used to service all or a substantial number of ThomasPartners' accounts, including accounts not maintained at Schwab. Schwab may also provide ThomasPartners with other services intended to help us manage and further develop our business. These services may include consulting, publications and presentations on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Schwab may make available, arrange, and/or pay for these types of services to ThomasPartners by independent third parties. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to ThomasPartners.

Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealer's fees. Thus, ThomasPartners may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. ThomasPartners nevertheless acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for ThomasPartners' other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

## **TD Ameritrade**

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

Thus, we may recommend that you, as a client, open an account with TD Ameritrade for custody of your assets and for brokerage services. There is no direct link between our participation in TD Ameritrade’s program and the investment advice we give to you. However, ThomasPartners receives economic benefits through its participation in the program that are typically not available to TD Ameritrade’s individual investors. These benefits include the following products and services (provided without cost or at a discount):

- receipt of duplicate Client statements and confirmations;
- research related products and tools;
- consulting services;
- access to a trading desk serving our clients;
- access to block trading (which provides the ability to bundle securities transactions for execution and then allocate the appropriate shares to our client accounts);
- the ability to have advisory fees deducted directly from our client accounts;
- access to an electronic communications network for client order entry and account information;
- access to mutual funds with no transaction fees and to certain institutional money managers; and
- discounts on compliance, marketing, research, technology, and practice management products or services provided to ThomasPartners by third party vendors.

TD Ameritrade sometimes pays for business consulting and professional services used by our employees. Some of the products and services made available by TD Ameritrade through the program benefit our clients; some services may benefit us but not our clients. These products or services may assist us in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help us manage and further develop our business.

The benefits received by us or our employees by participating in the program do not depend on the amount of brokerage transactions we direct to TD Ameritrade. As part of its fiduciary duties to our clients, ThomasPartners strives at all times to put the interests of its clients first. You should be aware, however, that receiving these benefits does create a conflict of interest and may indirectly influence our choice of TD Ameritrade for your custody and brokerage services.

## **National Financial Services LLC, and Fidelity Brokerage Services LLC**

ThomasPartners has an arrangement with National Financial Services LLC, and Fidelity Brokerage Services LLC (together with all affiliates, "Fidelity") through which Fidelity provides ThomasPartners with Fidelity's "platform" services. The platform services include, among others, brokerage, custodial, administrative support, record keeping and related services that are intended to support intermediaries like ThomasPartners in conducting business and in serving the best interests of their clients.

Fidelity charges brokerage commissions and transaction fees for effecting certain securities transactions (i.e., transactions fees are charged for certain no-load mutual funds and commissions are charged for individual equity and debt securities transactions). Fidelity enables ThomasPartners to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Fidelity's commission rates are generally considered discounted from customary retail commission rates. However, the commissions and transaction fees charged by Fidelity may be higher or lower than those charged by other custodians and broker-dealers.

As part of the arrangement, Fidelity also makes available to ThomasPartners, at no additional charge, certain research and brokerage services, including research services obtained by Fidelity directly from independent research companies, as selected by ThomasPartners (within specified parameters). These research and brokerage services at present include:

- provide access to client account data (such as trade confirmations and account statements);
- facilitate trade execution and allocate bundled trade orders for multiple client accounts);
- provide research, pricing and other market data;
- facilitate payment of ThomasPartners' fees from its clients' accounts;
- assist with back-office functions, recordkeeping and client reporting;
- compliance, legal and business consulting; and
- publications, and conferences on practice management and business succession.

As a result of receiving such services for no additional cost, ThomasPartners may have an incentive to continue to use or expand the use of Fidelity's services. ThomasPartners examined this potential conflict of interest when it chose to enter into the relationship with Fidelity and has determined that the relationship is in the best interests of ThomasPartners' clients and satisfies its client obligations, including its duty to seek best execution. ThomasPartners and Fidelity are not affiliates, nor is there any broker-dealer affiliation between ThomasPartners and Fidelity.

### **Client Referrals from Solicitors**

ThomasPartners may contract with independent solicitors to obtain new clients. These independent solicitors are paid a fee for each referral that becomes a client. The solicitor discloses the name of the solicitor and the nature of their compensation to all new referred clients prior to entering into an investment management agreement with ThomasPartners. Client fees are generally not higher than our standard fees because of payments to a solicitor.

### **TD Ameritrade**

ThomasPartners receives client referrals from TD Ameritrade through TD Ameritrade AdvisorDirect (the "referral program"). We were invited to join the program by exceeding TD Ameritrade's minimum requirements. We also may have been selected to participate based on the amount of assets and profitability of trades in client accounts maintained at TD Ameritrade. TD Ameritrade established the referral program as a means of referring its brokerage customers and other investors to independent investment advisors.

TD Ameritrade is a discount broker-dealer independent of and not affiliated with ThomasPartners. There is no employee or agency relationship between TD Ameritrade and ThomasPartners. TD Ameritrade does not supervise us and has no responsibility for our management of client portfolios or ThomasPartners' other advice or services.

We pay TD Ameritrade an on-going fee for each successful client referral. This fee is usually a percentage (not to exceed 25%) of the advisory fee that the client pays to us (“Solicitation Fee”). We also pay TD Ameritrade the Solicitation Fee on any advisory fees we receive from any of a referred client’s family members. This includes a spouse, child or any other immediate family member living with the referred client and recommended to ThomasPartners by the referred client.

ThomasPartners pays the fees mentioned above. We do not charge clients referred through AdvisorDirect any fees or costs higher than its standard fee schedule offered to its clients, or otherwise pass Solicitation Fees paid to TD Ameritrade to its clients.

For information regarding additional or other fees paid directly or indirectly to TD Ameritrade, please refer to the TD Ameritrade AdvisorDirect Disclosure and Acknowledgement Form.

ThomasPartners’ participation in AdvisorDirect raises potential conflicts of interest. TD Ameritrade will most likely refer clients through AdvisorDirect to investment advisors that encourage their clients to custody their assets at TD Ameritrade and whose client accounts are profitable to TD Ameritrade. Thus, in order to obtain client referrals from TD Ameritrade, we may have an incentive to recommend to clients that the assets under management by ThomasPartners be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade.

In addition, we have agreed not to solicit clients referred to us through AdvisorDirect to transfer their accounts from TD Ameritrade or to establish brokerage or custody accounts at other custodians, except when our fiduciary duties require doing so. ThomasPartners’ participation in AdvisorDirect does not diminish its duty to seek best execution of trades for client accounts.

**National Financial Services LLC, Fidelity Brokerage Services LLC, FMR LLC, and Strategic Advisers, Inc.**

***Participation in Fidelity Wealth Advisor Solutions®.*** ThomasPartners participates in the Fidelity Wealth Advisor Solutions Program (the “WAS Program”), through which ThomasPartners receives referrals from Strategic Advisers, Inc. (“SAI”), a registered investment advisor and subsidiary of FMR LLC, the parent company of Fidelity Investments. ThomasPartners is independent and not affiliated with SAI or FMR LLC. SAI does not supervise or control ThomasPartners, and SAI has no responsibility or oversight of ThomasPartners’ provision of investment management or other advisory services.

Under the WAS Program, SAI acts as a solicitor for ThomasPartners, and ThomasPartners pays referral fees to SAI for each referral received based on ThomasPartners’ assets under management attributable to each client referred by SAI or members of each client’s household. The WAS Program is designed to help investors find an independent investment advisor, and any referral from SAI to ThomasPartners does not constitute a recommendation or endorsement by SAI of ThomasPartners’ particular investment management services or strategies. More specifically, ThomasPartners pays the following amounts to SAI for referrals: For a period of 7 years from the date that an account or accounts is funded with ThomasPartners, ThomasPartners shall pay SAI an amount equal to an annual percentage of 0.20% of any and all assets in such accounts. In addition, ThomasPartners has agreed to pay SAI a minimum annual fee of \$10,000 in connection with its participation in the WAS Program. These referral fees are paid by ThomasPartners and not the client.

To receive referrals from the WAS Program, ThomasPartners must meet certain minimum participation criteria, but ThomasPartners may have been selected for participation in the WAS Program as a result of its other business relationships with SAI and its affiliates, including Fidelity Brokerage Services, LLC (“FBS”). As a result of its participation in the WAS Program, ThomasPartners may have a potential conflict of interest with respect to its decision to use certain affiliates of SAI, including FBS, for execution, custody and clearing for certain client accounts, and ThomasPartners may have a potential incentive to suggest the use of FBS and its affiliates to its advisory clients, whether or not those clients were referred to ThomasPartners as part of the WAS Program. Under an agreement with SAI, ThomasPartners has agreed that it will not charge clients more than the standard range of advisory fees disclosed in its Form ADV Part 2A Brochure to cover solicitation fees paid to SAI as part of the WAS Program. Pursuant to these arrangements, ThomasPartners has agreed not to solicit clients to transfer their brokerage accounts from affiliates of SAI or establish brokerage accounts at other custodians for referred clients other than when ThomasPartners’ fiduciary duties would so require; therefore, ThomasPartners may have an incentive to suggest that referred clients and their household members maintain custody of their accounts with affiliates of SAI. However, participation in the WAS Program does not limit ThomasPartners’ duty to select brokers on the basis of best execution.

## **Item 15. Custody**

Due to ThomasPartners’ affiliation with Schwab, ThomasPartners is deemed to have custody of client accounts held at Schwab as a qualified custodian. In order to comply with the custody rule, we obtain an annual copy of Schwab’s internal control report, including an opinion from an independent public accountant with respect to the related person’s controls relating to custody of the client assets. In addition, ThomasPartners obtains an annual surprise examination from an independent public accountant covering all accounts custodied at Schwab. The surprise examination will also include all covered accounts custodied at unaffiliated broker-dealers or banks due to certain clients’ standing letters of authorizations. In addition, a portion of ThomasPartners’ clients’ accounts are held in custody by unaffiliated broker-dealers or banks, but ThomasPartners can only access many of such clients’ accounts through its ability to debit advisory fees. For this reason ThomasPartners is considered to have custody of these client assets, but is exempt from the surprise examination requirement. Account custodians send statements directly to the account owners on at least a quarterly basis. Clients should carefully review these statements, and should compare these statements to any account information provided by ThomasPartners.

## **Item 16. Investment Discretion**

When clients choose ThomasPartners as their investment manager, they will need to sign the custodian’s Limited Power of Attorney (“LPOA”) or applicable new account paperwork giving ThomasPartners authorization to make trades in their account.

ThomasPartners’ investment management discretion is exercised as follows:



1. Discretion is limited to the purchase and sale of securities, and not to distributions of cash or securities (except for the limited grants of authority to facilitate the withdrawal of moneys and direct payments to third parties in accordance with clients' instructions).
2. Investments will not exceed the client's funds in the account, unless the client has established a custodial margin account.
3. ThomasPartners may execute security transactions at the client's custodian due to ease of obtaining information, services provided (personnel and software) and cost of execution. Clients may elect to custody their accounts at any custodian subject to the approval of ThomasPartners but the selection of a custodian may or may not put the client at a disadvantage for getting the best execution for their trades.

## **Item 17. Voting Client Securities**

ThomasPartners has adopted written proxy voting policies and procedures (the "Procedures"). For proxies voted by ThomasPartners on behalf of each client who delegates voting authority to us ("Delegating Clients"), procedures may be changed as necessary to comply with regulatory requirements and internal policies and procedures designed to maximize the economic benefit to Delegating Clients. ThomasPartners has retained a third party vendor to manage this process and reviews the vendor's proxy voting written policies no less than annually to determine consistency in the Procedures and with ThomasPartners' fiduciary duty to Delegating Clients.

Proxy votes cast by ThomasPartners in accordance with its written policy are generally not viewed as being the product of any conflicts of interest because ThomasPartners casts such votes pursuant to the pre-determined policy which is based upon the recommendations of an independent third party. Should any over-rides occur, any potential conflicts would be appropriately addressed and documented.

ThomasPartners' clients can get a copy of the Procedures and information about how ThomasPartners has voted their securities in a particular proxy vote by calling ThomasPartners at (888) 431-1430 or emailing [thomaspartnersinfo@thomaspartnersinc.com](mailto:thomaspartnersinfo@thomaspartnersinc.com). The information will be provided at no charge.

Delegating Clients may not direct voting in a particular solicitation. Clients wishing to retain the ability to vote proxies must submit a separate form to their custodian.

Class action lawsuits on behalf of stockholders can occur from time to time. Should a client inform ThomasPartners that they wish to participate, we will provide them with the information we have to aid them in completing their proof of claim paperwork. It is the client's responsibility to determine if they want to participate in the claim, to complete the forms with appropriate documentation, and to submit the required claim package.

## **Item 18. Financial Information**

ThomasPartners does not require prepayment of fees more than six months in advance, and therefore is not required to provide a balance sheet for its most recent fiscal year. ThomasPartners has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.

