

## PART 2A APPENDIX 1 OF FORM ADV

### ITEM 1. COVER PAGE

Oppenheimer Asset Management Inc.  
85 Broad Street  
New York, NY 10004

January 21, 2015

This wrap fee program brochure (the “Brochure”) provides information about the qualifications and business practices of Oppenheimer Asset Management Inc. If you have any questions about the contents of this brochure, please contact Vineet Bhalla at 212-885-4745 or [Vineet.bhalla@opco.com](mailto:Vineet.bhalla@opco.com) or John Karsen at 212-885-4794 or [john.karsen@opco.com](mailto:john.karsen@opco.com).

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.

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

Registration as an investment adviser does not imply a certain level of skill or training.

## ITEM 2. MATERIAL CHANGES

Oppenheimer Asset Management Inc. (“OAM”) filed its most recent annual update to its Form ADV Part 2A on March 28, 2014.

The changes made to this Brochure since the most recent update on July 17, 2014 are changes to the default cash sweep option and Portfolio Advisory Services Program.

A summary of any material changes to this and subsequent Brochures will be provided to you within 120 days of the close of our business’ fiscal year. We may also provide you with additional updates or other disclosure information at other times during the year in the event of any material changes to our business.

You may request the most recent version of this brochure by contacting Vineet Bhalla at 212-885-4745 or [vineet.bhalla@opco.com](mailto:vineet.bhalla@opco.com) or John Karsen at: 212-885-4794 or [john.karsen@opco.com](mailto:john.karsen@opco.com)

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#### **ITEM 4. SERVICES, FEES AND COMPENSATION.**

Oppenheimer Asset Management Inc. (“OAM”) is the sponsor of several wrap fee programs.

##### Oppenheimer Investment Advisers – the OIA Program

Oppenheimer Investment Advisers (“OIA”), a division of OAM, provides discretionary fixed income advisory services through the OIA wrap fee program.

The fee schedule for accounts opened after January 1, 2009 in the OIA program is as follows:

- 0.80% of the value of the account up to \$2 million.
- 0.70% of the value of the account between \$2 million and \$5 million.
- 0.60% of the value of the account between \$5 million and \$10 million.

The fee schedule for High Yield accounts is as follows:

- 1.00% of the value of the account.

The fee schedule for High Yield Tax Exempt accounts is as follows:

- 1.25% of the value of the account

For accounts valued at greater than \$10,000,000, the fee is negotiable.

Fees are negotiable based upon factors that may include the size of the overall client relationship and the discretion of the client’s Financial Advisor.

The services that are provided for the fee include portfolio management, performance reporting, brokerage commissions for agency transactions executed by Oppenheimer & Co. Inc. (“Oppenheimer”), an affiliate of OAM, and custody services provided by Oppenheimer.

Generally, fixed income securities transactions will be executed through broker-dealers other than Oppenheimer on a principal basis.

The OIA program may cost a client more or less than the cost of purchasing these services separately, depending on the number of transactions effected and the ability to obtain lower cost services elsewhere.

In addition to the fee, clients may pay dealer markups or markdowns in principal transactions with broker dealers other than Oppenheimer, or commissions charged by broker dealers other than Oppenheimer, ADR agency processing fees, odd lot differentials, Exchange or SEC fees, transfer taxes and any other charges imposed by law. Assets held in the account in cash will be invested in unaffiliated money market mutual funds. Shareholders in mutual funds bear their proportionate share of the expenses of the mutual fund.

Financial advisors of Oppenheimer receive a portion of the fee paid by their clients in the OIA program ranging from 0.0% to 0.50%. The amount of this compensation may be more than what the financial advisor would receive if the client participated in other programs or paid separately

for investment advice, brokerage and other services. A financial advisor may therefore have a financial incentive to recommend the OIA program over other programs or services.

#### OIA – Retirement Plan

OAM is the sponsor of an OIA program for retirement plans that are governed by the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). The program is called OIA-Retirement Plan. The OIA-Retirement Plan program offers the same services as the OIA program. In the OIA-Retirement Plan program, the fee charged by OAM is less the Credit Amount as defined below. If any assets in a client’s account are invested in a mutual fund that pays distribution fees to Oppenheimer, such payments will be offset against the fee payable by the client to OAM (the “Credit Amount”). The fee payable to OAM is negotiable.

0.80% of the value of the account up to \$2 million.

0.70% of the value of the account between \$2 million and \$5 million.

0.60% of the value of the account between \$5 million and \$10 million.

The OIA High Yield Tax Exempt account program is not available for retirement plans that are governed by ERISA.

#### Investment Advisory Service Program

OAM is the sponsor of the Investment Advisory Service (“IAS”) program. OAM hires portfolio management firms (including OIA) to provide discretionary management for client accounts in the program. In addition to portfolio management services, the IAS program offers asset allocation services, custody and execution services through Oppenheimer, performance reporting and ongoing monitoring of portfolio managers.

The fees for the IAS program are as follows:

##### For Equity and Balanced Managers

3.00% of the first \$500, 000 of assets

2.25% of the next \$500,000 of assets

1.90% of the next \$1,500,000 of assets

1.70 % of the next \$2,500,000 of assets

1.50% of the next \$5,000,000 of assets

##### For Fixed Income Managers

0.80% of the first \$5,000,000 of assets

0.70% of the next \$5,000,000 of assets

Fees are negotiable based upon factors that may include the size of the overall client relationship and the discretion of the client’s Financial Advisor. OAM pays managers fees ranging from 0.25% to 0.50% of assets under management.

The IAS program also offers Unified Managed Accounts (“UMAs”) which may include investment strategies of one or more investment managers, exchange-traded funds (“ETFs”) and mutual funds.

The standard fees for investment manager strategies available through UMAs are the same as for IAS Managers (shown above.) However certain managers are available through UMAs at fees that are higher or lower than the fees indicated above. The list of managers with higher or lower fees is available upon request. Clients are informed if they have selected a manager with a higher or lower fee.

The fees for mutual funds in UMAs are as follows:

- 1.75% of the first \$500,000 of assets
- 1.50% of the next \$500,000 of assets
- 1.25% of all other assets

The fees for ETFs in UMAs are as follows:

- 1.50% of the first \$500,000
- 1.25% of the next \$500,000
- 1.00% of all other assets

Investment managers available through UMAs include managers who exercise investment discretion over their strategies and managers who provide model portfolios but do not exercise investment discretion over their strategies. Placemark Investments Inc. (“Placemark”), which is not affiliated with OAM, acts as overlay portfolio manager for UMA accounts and exercises investment discretion with respect to model portfolio strategies. OAM pays Placemark a fee ranging from 0.10% to 0.20% of assets for overlay portfolio management services depending upon the size of the UMA and the mix of managers, ETFs and mutual funds in the UMA. OAM pays managers in UMAs fees ranging from 0.15% to 0.45% of assets. Clients may select tax management services for UMA accounts for an additional fee.

OAM has created UMA portfolios with designated managers, ETFs and /or mutual funds which are called Managed Allocation Series (“MAS”) portfolios.” OAM has discretion to change the allocations within a Choice Portfolio and to change the managers, ETFs or mutual funds in a MAS Portfolio. Clients also may select their own allocations in UMAs which are called “Flex Portfolios.” Within a Flex Portfolio, clients may select managers, ETFs or mutual funds among the managers, ETFs and mutual funds that are available in UMAs. Clients may change the allocations, managers, ETFs or mutual funds in a Flex Portfolio at their discretion.

The fees charged for IAS accounts including UMAs may differ from what it would cost to purchase these services separately. Client can purchase ETFs and mutual funds in their brokerage accounts without paying an advisory fee to OAM.

In addition to the fee, clients may pay dealer markups or markdowns in principal transactions with broker dealers other than Oppenheimer, or commissions charged by broker dealers other than Oppenheimer, ADR agency processing fees, odd lot differentials, Exchange or SEC fees, transfer taxes and any other charges imposed by law, or any mutual fund expenses including redemption charges. Assets held in the account in cash will be invested in unaffiliated money market mutual funds. Shareholders in mutual funds bear their proportionate share of the expenses of the mutual fund. If mutual funds held in a client’s UMA (other than money market sweep

funds) pay 12b-1 distribution fees to Oppenheimer, those payments will be used to offset the fee payable by the client to OAM.

Financial advisors of Oppenheimer receive a portion of the fee paid by their clients in the IAS program. The amount of this compensation may be more than what the financial advisor would receive if the client participated in other programs or paid separately for investment advice, brokerage and other services. A financial advisor may therefore have a financial incentive to recommend the IAS program over other programs or services. Oppenheimer Branch Managers review each new advisory account for suitability before it is opened.

#### Investment Advisory Program – Retirement Plan

OAM is the sponsor of an IAS program for retirement plans that are governed by ERISA. The program is called IAS-Retirement Plan. The IAS-Retirement Plan program offers the same services as the IAS program but with a different fee structure. In the IAS-Retirement Plan program, OAM charges a fee, less the Credit Amount, of 2.50% for Balanced accounts and 0.50% for Fixed Income accounts. Clients also pay a separate fee to portfolio managers that they select. For UMA accounts in IAS-Retirement Plan, clients also pay a separate fee for the overlay portfolio manager, sub-managers and UMA discretionary managers. No additional fee will be paid for any portfolio managers or UMA managers selected by the client that are affiliated with OAM. If any assets in a client's account are invested in a mutual fund that pays distribution fees to Oppenheimer, such payments will be offset against the fee payable by the client to OAM (the "Credit Amount"). The fee payable to OAM is negotiable.

#### Strategic Asset Review – STAR Program

OAM is the sponsor of the Strategic Asset Review ("STAR") program. In the STAR program, OAM offers consulting services including identification and monitoring of researched portfolio managers, quarterly performance reporting and asset allocation recommendations. Oppenheimer provides custody and execution services. Clients in the STAR program enter into portfolio management agreements directly with the portfolio management firms that they select at fees negotiated by the client. OAM does not have authority to select portfolio managers for clients in the STAR program. Clients in the STAR program may select portfolio managers that OAM does not research.

The fee payable to OAM for the STAR program is as follows:

##### Equity and Balanced Accounts

- 2.25% of the first \$500,000 of assets
- 1.75% of the next \$500,000 of assets
- 1.25% of the next \$1,500,000 of assets
- 1.00% of the next \$7,500,000 of assets
- 0.75% of the next \$15,000,000 of assets

##### Fixed Income Accounts

- 0.50% of the first \$5,000,000 of assets
- 0.40% of assets over \$5,000,000

Fees are negotiable depending on the overall client relationship and the discretion of the client's Financial Advisor.

The fees charged for STAR accounts may differ from what it would cost to purchase these services separately depending upon the number of transactions effected and the ability of the client to obtain lower cost services elsewhere.

In addition to the fee, clients may pay dealer markups or markdowns in principal transactions with broker dealers other than Oppenheimer, ADR agency processing fees, odd lot differentials, Exchange or SEC fees, transfer taxes and any other charges imposed by law. Assets held in the account in cash will be invested in unaffiliated money market mutual funds.

Financial advisors of Oppenheimer receive a portion of the fee (or commission if commission based account.) paid by their clients in the STAR program. The amount of this compensation may be more than what the financial advisor would receive if the client participated in other programs or paid separately for consulting services brokerage and custody depending on whether clients can obtain lower cost services elsewhere. A financial advisor may have a conflict of interest in recommending the STAR program over other programs or services. Oppenheimer Branch Managers review each new advisory account for suitability before it is opened.

#### STAR – Retirement Plan Program

OAM is the sponsor of the STAR program for retirement plans subject to ERISA ("STAR-Retirement Plan"). The STAR-Retirement Plan program offers the same services as the STAR program but with a different fee structure. In the STAR-Retirement Plan program, OAM charges a fee of 2.50% less the Credit Amount. Clients pay separate fees to the portfolio managers that they select. If any assets in a client's account are invested in a mutual fund that pays distribution fees to Oppenheimer, such payments will be offset against the fee payable by the client to OAM (the "Credit Amount"). The fee payable to OAM is negotiable.

#### Portfolio Advisory Services Program

OAM is the sponsor of the Portfolio Advisory Services ("PAS") Flex program and the PAS Managed program.

In the PAS Flex program OAM assists clients in developing asset allocation strategies and identifying mutual funds and exchange traded funds ("funds") that appear to be compatible with clients' investment objectives and provides quarterly performance reporting. Clients in the PAS Flex program select fund investments from the funds available in the program and may choose funds that OAM has not identified for the client. OAM does not exercise investment discretion in the selection of funds for a client's PAS Flex account.

The fee for the PAS Flex program is as follows:

2.00% on the first \$500,000  
1.75% on the next \$500,000  
1.50% on assets over \$1,000,000



OAM also offers an offshore version of PAS for non-U.S. investors to invest in offshore funds. The offshore PAS program is offered only outside of the United States to persons who are not U.S. persons as defined under Regulation S adopted under the Securities Act of 1933.

In the PAS Managed program, OAM offers pre-constructed portfolios of funds that are designed to provide asset allocation strategies for clients. OAM monitors the funds in these portfolios and exercises investment discretion to change the allocations or the funds, if appropriate. The DPAS program also provides performance reporting. Execution of fund transactions and custody services are provided by Oppenheimer.

The fee for the PAS Managed program is as follows:

2.25% on the first \$500,000 of assets  
2.00% on the next \$500,000 and  
1.75% on assets over \$1Million

The fee payable by the client for the PAS programs will be offset by the greater of 0.50% on an annual basis of the value of the client's account or the actual amount of 12b-1 fees paid to Oppenheimer during the preceding quarter attributable to fund shares (other than money market sweep funds) held in the client's PAS or PAS Managed account. Fees are negotiable depending on the overall client relationship and the discretion of the client's Financial Advisor.

In addition to the, PAS or PAS Managed fee, clients may pay charges imposed by law or by any fund including redemption charges. Shareholders in funds bear their proportionate share of the expenses of the fund.

The PAS and the PAS Managed program may cost a client more or less than the cost of purchasing these services separately.

Financial advisors of Oppenheimer receive a portion of the fee paid by their clients in the PAS and PAS Managed programs. The amount of this compensation may be more than what the financial advisor would receive if the client participated in other programs or paid separately for investment advice, brokerage or other services. A financial advisor may have a financial incentive to recommend the PAS or DPAS program over other programs or services.

#### PAS and PAS Managed – Retirement Plan

OAM is the sponsor of a PAS program for retirement plans ("PAS-Retirement Plan") and a PAS Managed program for retirement plans ("PAS Managed -Retirement Plan"). The PAS-Retirement Plan program offers the same services as the PAS program and the PAS Managed - Retirement Plan program offers the same services as the DPAS program. In the PAS-Retirement Plan program and the PAS Managed -Retirement Plan program, the fee charged by OAM is less the Credit Amount. Any distribution payments paid by funds to Oppenheimer with respect to assets held in clients' accounts in the PAS-Retirement program and the PAS Managed -Retirement program are offset against the fee payable to OAM (the "Credit Amount"). The fee payable to OAM is negotiable.

### **Portfolio Enhancement Program and Put Hedged Portfolio Enhancement Program**

OAM is the sponsor of the Portfolio Enhancement program (“PEP”) and the Put Hedged Portfolio Enhancement program (“Put Hedged PEP”). The PEP program is a discretionary advisory program that uses the sale of broad based index options to enhance the return on a portfolio of securities. Options are sold for up to 40 trading day periods with strike prices significantly apart from current market levels. The strike price is the specified price on an option contract at which the option may be exercised. The portfolio of securities is held at a separate brokerage account at Oppenheimer. In the Put Hedged PEP program, a far out of the money put is purchased to establish a floor on possible losses should the Standard & Poor’s 500 Index decline by a large amount. A far out of the money put is one whose exercise price is well below the market price of the underlying stock. The PEP and Put Hedged PEP programs also provide execution and custody services through Oppenheimer.

The fees for PEP and Put Hedged PEP are as follows:

#### **Fees**

Clients are charged a flat fee per “unit” which includes fees for brokerage, custody and execution and advisory services. A “unit” is an administratively determined minimum amount. OAM may waive the minimum at its discretion at a fee that will be negotiated with the client. It utilizes a maximum of \$1,250,000 of “funds available” released from collateral provided by marginable securities held in the client’s brokerage account at Oppenheimer. The collateral provides backing for the sale of uncovered options. Different forms of collateral (i.e., stocks, municipal bonds, treasury bills) release varying amounts as determined by the brokerage firms and their regulatory authorities. The actual amount of options contracts in a unit at any time is at the sole discretion of Oppenheimer. The fees per unit shown in US dollars are as follows:

<b>PEP Units</b>	<b>Monthly Fee</b>	<b>Annual fee</b>
0.5	1000	12000
1	1850	22200
1.5	2700	32400
2	3600	43200
2.5	4400	52800
3	5000	60000
3.5	5700	68400
4	6200	74400
4.5	6700	80400
5	7200	86400
5.5	7700	92400
6	8200	98400
6.5	8700	104400
7	9200	110400
7.5	9700	116400
8	10200	122400

8.5	10700	128400
9	11200	134400
9.5	11700	140400
10	12200	146400
11	13200	158400
12	14200	170400
13	15200	182400
15	17200	206400
17	19200	230400
20	22200	266400
22	24200	290400
24	26200	314400
26	28200	338400
28	30200	362400
29	31200	374400
30	32200	386400
31	33200	398400
32	34200	410400
33	35200	422400
34	36200	434400
35	37200	446400
36	38200	458400
40	42200	506400
42	44200	530400
45	47200	566400
48	50200	602400
50	52200	626400

Fees are negotiable based upon factors that include the overall size of the client relationship and the discretion of the client's Financial Advisor.

Financial advisors of Oppenheimer receive a portion of the fee paid by their clients in the PEP or Put Hedged PEP program. The amount of this compensation may be more than what the financial advisor would receive if the client participated in other programs or paid separately for investment advice, brokerage or other services. A Financial Advisor may have a financial incentive to recommend the PEP or Put Hedged PEP program over other programs or services.

#### Cash Balances invested in Advisory Programs other than Programs for Retirement Plans

Cash balances in the advisory programs sponsored by OAM are invested automatically in deposit accounts ("Deposit Accounts") at certain participating banks in the Advantage Bank Deposit Program. Oppenheimer will receive a fee from each participating bank. The amount of the fee paid to Oppenheimer will affect the interest rate paid on Deposit Accounts. .

The fee payable to Oppenheimer may be as high as 5% of the household balances invested in the Advantage Bank Deposit Program. Oppenheimer will waive the payment of any fee from each Deposit Bank for retirement plan accounts.

#### Selection of Advisory Program

Oppenheimer Financial Advisors provide retirement plan clients with information about various advisory programs offered by Oppenheimer and OAM. No representative of Oppenheimer or OAM provides individualized advice to retirement plan clients based on the particular needs of the plan regarding the selection of an advisory program. The selection of an advisory program is made by the retirement plan's Responsible Plan Fiduciary.

### **ITEM 5. ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS**

#### Minimum Account Sizes:

##### OIA

OIA has minimum account sizes for different investment strategies as follows:

\$150,000 for investment grade tax exempt accounts

\$250,000 for core, core plus, corporate core plus, intermediate taxable, and high yield accounts

\$5,000,000 for High Yield Tax Exempt accounts

\$1,000,000 for cash management accounts

##### IAS

The minimum for an IAS account is \$100,000 (\$150,000, \$250,000 or \$300,000 for certain balanced and fixed income managers).

The minimum for a UMA account in the IAS program ranges from \$25,000 to \$5000,000 for MAS Portfolios and from \$50,000 to \$500,000 for Flex Portfolios depending upon the managers, ETFs and mutual funds.

##### STAR

The minimum for a STAR account held at Oppenheimer is \$100,000 (with higher minimums for certain STAR managers). STAR accounts that are custodied away from Oppenheimer have a minimum of \$5,000,000.

##### PAS Flex and PAS Managed

The minimum for a PAS Flex account is \$10,000 and for a PAS Managed and PAS Offshore account is \$25,000.

##### PEP and Put Hedged PEP

The minimum collateral-release for a PEP account and Put Hedged PEP account is \$1,250,000.

Participants in the PEP and Put Hedged PEP programs must meet Oppenheimer's uncovered suitability requirements, complete Oppenheimer's Option Application and have a net worth of \$3 million with a minimum account size of \$1.25 million of released collateral. PEP and Put Hedged PEP involve a high degree of risk. Clients in these programs should be financially sophisticated and able to withstand loss of equity.

OAM's wrap fee program clients include individuals, trusts, pension and profit sharing plans and business entities.

#### **ITEM 6. PORTFOLIO MANAGER SELECTION AND EVALUATION**

OAM uses quantitative and qualitative standards to select portfolio managers for its wrap programs. Prospective portfolio managers and mutual funds must complete a questionnaire providing detailed information about their history, asset breakdown, investment team and turnover, investment philosophy and process, risk controls, trading and compliance infrastructure, client service capability and historical performance. OAM uses a third party risk model to evaluate historical portfolio holdings. The risk model is a holdings-based risk tool designed to decompose a portfolio's risk into individual components, systematic risk and non-systematic risk. OAM compares the manager's description of its process to the quantitative analysis generated by the third party firm. OAM evaluates a manager's past performance to determine whether a style bias accounts for positive performance in a particular market cycle or whether performance is attributable to the manager. OAM also analyzes a portfolio manager's strategy to determine whether the addition of that strategy will diversify the available strategies available in OAM's wrap programs. OAM conducts an on site visit at the portfolio manager's offices to observe the culture of the firm.

##### How OAM Monitors and Reviews the Managers in the Program

OAM monitors portfolio managers in its wrap programs on an ongoing basis.

- On a daily basis, the due diligence team at OAM looks at factors that we think may create risks to the portfolio's economic returns.
- On a weekly basis, the due diligence team at OAM looks at how well the economic market performed compared to how well the managers/mutual funds managed the client portfolio.
- On a monthly basis, the due diligence team OAM reviews investment manager/mutual funds returns and new information about investment managers/mutual funds. The due diligence team determines additions to and elimination of managers/funds in the program.
- On a quarterly basis, the due diligence team will interview the portfolio managers/mutual funds to review the past quarter's performance and how they think the portfolio will perform in the future. We will discuss the processes they are using and any changes in the people who are assisting the manager.
- On an annual basis, the due diligence team will visit each portfolio manager/mutual fund at its office. This includes an in-depth review to highlight any significant changes to the organization, team or process from the prior year and to determine whether the original thesis for hiring the manager remains intact.

On an annual basis a detailed performance review is conducted using returns-based analysis, holdings-based attribution analysis and holdings-based risk factor analysis. Returns-based analysis is used to compare how the client's portfolio performed relative to the manager's composite. It is also used to determine whether the return and risk profile of the portfolio has met OAM's expectations. Holdings-based attribution and risk factor analysis is used to determine the positive and negative drivers of performance; stock, sector, style factor, etc.

OAM maintains a watch list of concerns about a portfolio manager. If these concerns are not resolved by a targeted date, OAM may terminate the manager from participation in its wrap fee programs. A manager may be terminated from a program for a number of reasons including investment professional turnover, organizational changes that have a negative effect on the investment team, style drift or operational or compliance changes.

OAM uses a proprietary desktop computer application called Portfolio Guidance and Analysis (“PGA”) to support its suitability review process for the IAS, including UMA and UMA MAS, STAR, PAS Flex, PAS Managed and OIA programs. Before enrolling in one of these programs, clients must complete a client profile which includes personal and financial information about the client such as date of birth, expected retirement date, dependents and annual income. The profile also includes a section on the client’s investment goals and risk tolerance. This section is designed to assess the client’s investment goals, tolerance for volatility and risk. Clients also complete a new account form prior to establishing a brokerage account with Oppenheimer. A client’s answers to questions about their risk tolerance, expectations for withdrawals and investment goals are scored. The scores in the clients risk profile are used to determine whether proposed managers for the client fall within pre-specified ranges of risk.

OAM provides clients with access to a Quarterly Portfolio Review (“QPR”) that includes performance as well as risk evaluation for advisory accounts. Performance is measured on a total return, net basis and presented inclusive of reinvested dividends (after the deduction of management and other fees).

The QPR is made available to clients and is prepared on a “trade date” basis, reflecting holdings as of the day transactions are executed. OAM clients receive monthly account statements from Oppenheimer which report holdings on a “settlement date” basis, which is typically three business days (or less) after the trade date. Market values in the QPR include accrued income, which is not included in the Oppenheimer account statement.

The Modified Dietz Method is used to calculate monthly performance returns which are then geometrically linked to calculate the cumulative performance return. If more than 12 months of data, the cumulative performance is annualized. This methodology is used to calculate performance returns for single account performance as well as consolidated account reporting. Consolidated performance reporting market values from each account are combined and performance is then calculated as a single account.

Portfolio Managers that participate in the IAS and STAR programs provide OAM with composite performance of accounts managed in the same investment strategy that they manage for OAM. The Consulting Group of OAM compares the composite performance it receives from managers to the performance of OAM client accounts that are invested in the same strategy.

OAM also performs a holdings based analysis of client accounts. On a daily basis, holdings-based information for all strategies is loaded into our performance attribution and risk system (BarraOne). The returns generated by this system are compared to the composite performance provided by the portfolio managers on a quarterly basis.

OIA, a division of OAM, acts as a portfolio manager in the IAS program. OAM’s Consulting Group, which performs due diligence on unaffiliated portfolio managers, does not perform due diligence with respect to OIA as an affiliated portfolio manager. The Portfolio Review Board of

OAM reviews and monitors affiliated portfolio managers. OIA may be selected by a Client as a portfolio manager in the IAS program.

OIA provides discretionary management services for fixed income accounts in the OIA program and in the IAS program.

Clients may impose restrictions on investing in certain securities and types of securities. Accounts are managed to meet individual client needs and objectives and tax situations.

OIA also manages accounts that are not in the OIA or IAS programs. There are no differences in the way fixed income accounts are managed between accounts in the OIA or IAS wrap programs and accounts that are not in those programs.

OIA portfolio managers do not manage any accounts that are charged a performance fee. OIA manages fixed income accounts with the following strategies:

Core  
Core Plus  
Corporate Core Plus  
Intermediate Taxable  
High Yield  
Investment Grade Tax Exempt  
High Yield Tax Exempt  
Cash Management

For each of these strategies, the investment process begins with an understanding of the client's needs and objectives. Security selection for all strategies except Investment Grade Tax Exempt is bottom up and focuses on optimal bond selection. Portfolio managers analyze the financial statements of corporate bond issuers and value the entire capital structure. In selecting core holdings, portfolio managers look for higher yield than the strategy's benchmark, shorter maturities, stable fundamentals and long holding periods. Portfolio managers may select fixed income securities that they expect will have a rating upgrade or are undervalued. Before securities are purchased for client's accounts, a relative value analysis is conducted based on proprietary spread data. Portfolio managers decide to sell securities when

- risk/return becomes unfavorable
- attractive alternative is available
- deteriorating credit fundamental
- portfolio balancing is required
- clients specific needs

#### Core Fixed Income

The OIA Core Fixed Income strategy seeks to consistently outperform the Barclays Capital U.S. Aggregate Bond Index while broadly diversifying the portfolio, managing portfolio risk level and maintaining a controlled duration discipline. OIA employs core fixed income strategies focused on individual security selection. Key strategies include fundamental research analysis, a controlled duration discipline, emphasis on all spread sectors and management of portfolio risk factors. Investments are made primarily in investment-grade corporate bonds, mortgage backed



and other structured securities, U.S. government securities and taxable municipal bonds. Portfolios are measured against the Barclays Capital U.S. Aggregate Bond Index as a benchmark.

#### Core Plus Fixed Income

The OIA Core Plus Fixed Income strategy seeks to consistently outperform the Barclays Capital U.S. Aggregate Bond Index while diversifying the portfolio, managing portfolio risk level and maintaining a controlled duration discipline. OIA employs core plus fixed income strategies focused on individual selection. Key strategies include fundamental research analysis, a controlled duration discipline, emphasis on all spread sectors and management of portfolio risk factors. Investments are made primarily in investment-grade corporate bonds, mortgage backed and other structured securities, U.S. government securities, taxable municipal bonds and non-investment grade bonds; however, up to 20% of portfolio assets may be invested in securities rated below investment grade. Portfolios are measured against the Barclays Capital U.S. Aggregate Bond Index as a benchmark.

#### Corporate Core Plus Fixed Income

The OIA Corporate Core Plus Fixed Income philosophy focuses on active portfolio management, utilizing a bottom-up style emphasizing optimal security selection. Portfolio risk is managed through a tightly controlled duration discipline and emphasis on sectors of the market that provide additional income. The portfolio usually invests 75% or more in Investment Grade U.S. Corporate Fixed Income securities and can invest anywhere from 0% to 25% in non-investment grade US Corporate securities. The investment strategy employs a four-step process that begins by screening the investment universe to prioritize investment candidates. Our process focuses on assessing the risk inherent in a company's security relative to the other investment opportunities in the market. The second step of the process is to perform security analysis to confirm strong credit fundamentals. Security selection, including relative value assessment, horizon analysis and the establishment of a valuation target is then evaluated to achieve a potential list of investment candidates. The final step in the investment strategy is constructing the portfolio within the client's objective and establishing buy-sell targets. Every security purchased must fall into one of the following categories: Core Holdings, Expected Ratings Upgrades, Undervalued Bonds or Opportunistic (mispriced security, liquidity imbalance, short holding period).

#### Intermediate Fixed Income

The OIA Intermediate Fixed Income strategy seeks to consistently outperform the Barclays Capital Intermediate U.S. Government/Credit Index while diversifying the portfolio, managing portfolio risk level and maintaining a controlled duration discipline. OIA employs intermediate fixed income strategies focused on individual security selection. Key strategies include fundamental research analysis, a controlled duration discipline, emphasis on all spread sectors and management of portfolio risk factors. Investments are made primarily in investment-grade corporate bonds, mortgage backed and other structured securities, U.S. government securities and taxable municipal bonds. Portfolios are measured against the Barclays Capital Intermediate U.S. Government/Credit Index as a benchmark.



### High Yield Fixed Income

The OIA High Yield Fixed Income strategy seeks to consistently outperform the Merrill Lynch High Yield Master II Index while broadly diversifying the portfolio and managing portfolio risk level. OIA employs high yield fixed income strategies focused on individual security selection. Key strategies include fundamental research analysis and management of portfolio risk factors. Investments are made primarily in high-yield corporate bonds. Portfolios are measured against the Merrill Lynch High Yield Master II Index as a benchmark.

### Investment Grade Tax Exempt

The OIA tax exempt strategy focuses on active portfolio management, using a relative value approach of sector rotation and security selection. Securities selected must be rated investment grade or better. The top down investment process begins by composing a maturity structure based on a 9-12 month interest rate forecast. The average duration of the portfolio is targeted to be within a range of plus or minus 20% of the appropriate benchmark. The next step is to identify what OIA believes to be attractive sectors within the tax-exempt markets. This step includes the selection of specific securities based on desired bond structure, state focus, bond categories and tax constraints. The final step in the process involves indentifying what OIA believes are undervalued securities within the appropriate sector classes and structures.

### High Yield Tax Exempt

The OIA High Yield Tax Exempt strategy seeks to produce strong risk adjusted total returns and current yield through a non-diversified high yield tax exempt portfolio. The strategy focuses on active portfolio management utilizing a top-down/bottom-up style emphasizing security selection and value investing. Security selection will focus primarily on project revenue bonds in five broad sectors: healthcare; education; housing; transportation and power, but also may include debt of distressed municipalities. The strategy usually will invest 70% or more of assets in below investment grade tax-exempt securities. It is expected that the average credit quality will be B/BB. The strategy may maintain a majority of positions in non-rated bonds. The strategy will strive to maintain less than 25% exposure to bonds subject to the alternative minimum tax.

### Cash Management

The OIA Cash Management strategy seeks to diversify the portfolio, managing portfolio risk levels and offering liquidity to investors. OIA employs cash management strategies focused on individual security selection. Key strategies include fundamental research analysis and management of portfolio risk factors. Investments are made primarily in high credit quality direct obligations of issuers having a stated maturity of 180 days or less, with a target average maturity of 90 days.

### OIA Methodologies

Taxable strategies:

OIA's security analysis methods for taxable accounts include proprietary models to evaluate a company's credit worthiness, project earnings and conduct scenario analysis to test earnings, leverage, cash flow and ratings assumptions. OIA's analysts also perform company background

checks, on-site visits and meetings with senior management teams of the companies under consideration. OIA analysis focuses on the following:

- Industry analysis
- Company analysis
- Capital structure / security analysis
- Indenture Covenant Analysis

Data services used by OIA for taxable accounts include Credit Sights, Bloomberg, Standard & Poor's, Moody's Investor Services, Barclays Capital, the New York Times and Wall Street Journal.

Additionally, OIA's analysts subscribe to industry specific literature and websites.

#### OIA Investment Grade Tax Exempt Methodology

All analysis is done internally by OIA portfolio managers and analysts. While credit ratings by the national rating agencies (Moody's, Standard and Poor's and Fitch) are observed as a baseline, they are not the sole determining factor in security selection.

Investment Methodology begins with a top down approach that analyzes general economic conditions, both nationally and geographically as well as the overall interest rate/inflation environment over the next 12-24 months. Domestic economic data releases are reviewed by the staff for general trends in GDP and inflation. Overall, interest rate forecast will determine maturity selection and bond structure, as well as areas that are performing above national averages. All security selection is guided by an investment discipline which limits all tax-exempt investments to General Obligation, Essentials Revenue or Pre-Refunded securities. Corporate Obligors and bonds for projects that we deem non-essential to a community are not allowed as investments in the portfolio. Occasionally, a new client portfolio may be established with bond positions that deviate from this discipline, in which case the bonds are reviewed on a case by case basis and the portfolio managers to determine whether they will be accepted for the portfolio.

All investments are reviewed for general creditworthiness based on three key categories:

1. General Economic conditions in municipality and surrounding areas. Statistics that are reviewed may include general population poverty levels, concentrated manufacturing or service businesses in area, percentage of student population on free lunch programs, and residential foreclosure rates in investment area. 2. Under funded pension and/or healthcare liability and 3. All bonds, but specifically Revenue bonds are reviewed as to the purpose of the bond and the security of the revenue stream that supports the projects(s). Finally all credits are reviewed as to general trends in financial management to determine whether credit is improving or deteriorating. This may include review of leverage and bond coverage ratios. The dominant source of information for analysis are the bond offering statements and ongoing financial disclosures of the specific credits.

Once a credit is determined to be appropriate for investment, an analysis of general market conditions and relative value to similar credits is conducted to determine an appropriate valuation of the bond. Allocation of a purchase will be determined by available cash in specific client

accounts, individual client tax parameters (state residency), risk profiles, and potential cash flow needs.

### **High Yield Tax Exempt Methodology**

The two most important elements of this strategy are value investing and proprietary credit research.

#### **Value:**

The strategy strives to achieve a combination of high current income while selecting bonds that have the potential for price appreciation. The strategy employs an investment process based upon:

- absolute and relative values;
- pricing inefficiencies;
- analysis of capital structure;
- maximizing call protection;
- performance of the underlying asset;
- exploiting anomalies in the market.

#### **Proprietary Credit Research**

Proper credit selection is critical to mitigate risk and achieve outperformance, so the investment process is of utmost importance. Before a credit is added to the portfolio it must undergo and pass a strict due diligence process, including:

- analysis of the sector;
- analysis of the credit;
- analysis of the management team's abilities;
- review of all documents, including feasibility study and market demographics, construction contract, management contract, and bond documents;
- physical site visits and management interviews when appropriate.

The goal of the strategy is to outperform the Barclay's Municipal High Yield Index.

Additionally, the portfolio manager factors in top down economic factors such as interest rates, credit cycles and political trends. Individual local and state analysis is conducted including fiscal policy, political climate, surplus/deficits, as well as industry analysis. While value is the primary focus, duration management, sector allocation, yield curve positioning, buy/sell trade execution, and geographic allocation also play a role in security selection.

Investing in securities involves risk of loss that clients should be prepared to bear:

There are risks associated with investing bonds. These include risks related to interest rate movements (interest rate risk, spread risk and reinvestment risk), and the risk of credit quality deterioration (credit or default risk). These risks need to be evaluated and effectively managed if the client is to achieve the potential benefits of investing in fixed income securities.

### Interest Rate Risk

Interest rate is the risk associated with the price volatility of a bond. As interest rates rise, bond prices decline. The longer the maturity of a fixed coupon bond, the greater the price declines for a given change in interest rates. Interest rate risk is the risk that market interest rate fluctuations result in a decline in the security's price between the time the investor buys it and the time (before maturity) at which he or she sells it.

Factors that affect interest rate risk include differences in coupon rates (the higher the coupon, the less the price movement), fixed vs variable coupons, and call features.

### Spread Risk

Spread risk is the risk associated with changes in yields between issuers, credit ratings, sectors and/or markets. For example, sector spreads are yield differences between similarly rated bonds of different sectors. AA rated bonds of financial firms may trade at much higher yields than similarly rated industrial bonds. This spread relationship may change substantially while the general level of interest rates may remain unchanged.

### Reinvestment Risk

Reinvestment risk is the risk that the cash flow received from a bond may be reinvested at a lower rate of return. Short-maturity bonds and callable bonds are the instruments most frequently associated with reinvestment risk. Callable bonds may subject the investors to reinvestment risk. Such bonds allow the issuer to repay the principal (with accrued interest) early. This gives the issuer the flexibility to refinance the debt if rates are low or declining. The timing of bond calls occurs precisely when investors do not want to receive their principal back, i.e., when they can only reinvest at either lower rates or in lower-quality securities. To compensate them for this reinvestment risk, investors in callables typically demand (and get) a higher interest rate as compared to non-callables.

### Credit Risk

Credit or default risk is the risk that the issuer may be unable to make timely principal and interest payments on the bond. It is the critical determinant of a fixed income security's quality.

All fixed income securities have credit risk. US Treasury securities are generally considered to have the least credit risk of all fixed income investments. Most corporate bonds are rated by a nationally recognized statistical rating agency such as Standard & Poor's and Moody's. Standard & Poor's rates bonds from AAA (the best) to D (in default) with the ratings AAA, AA, A, and BBB considered to be "investment grade" and bonds rated BB, B, CCC, CC, C and D considered speculative grade. Generally the lower the rating the greater chance the obligor may not be able to repay their bonds in full and on time (default). Many factors contribute to the ultimate recovery of principal (and possibly back interest) should an issue default. Investors should pay particular attention to the issue's ranking in the capital structure of the issuer.

High yield bonds are bonds rated BB or lower. High yield fixed income securities are considered to be speculative and involve a substantial risk of default. Adverse changes in economic

conditions or developments regarding the issuer are more likely to cause price volatility for issuers of high yield debt than would be the case for issuers of higher grade debt securities. In addition, the market for high yield debt may be less attractive than that of higher-grade debt securities. These bonds tend to have significantly higher price volatility so an investor selling a high yield bond prior to maturity may receive only a fraction of the original purchase price. Additionally, in the event of default bondholders may receive limited recoveries, if any.

### Municipal Securities Risk

Issuers of municipal securities tend to derive a significant portion of their revenue from taxes, particularly property and income taxes. Accordingly, decreases in personal income levels and property values and other unfavorable economic factors, such as a general economic recession, adversely affect municipal securities. Municipal issuers may also be adversely affected by rising healthcare costs, increasing unfunded pension liabilities and by the phasing out of federal programs providing financial support. Where municipal securities are issued to finance particular projects, especially those relating to education, healthcare, transportation, housing, water or sewer and utilities, issuers often depend on revenues from those projects to make principal and interest payments. Adverse conditions and developments in those sectors can result in lower revenues to issuers of municipal securities and can also have an adverse effect on the broader municipal securities market.

There may be less public information available on municipal issuers or projects than other issuers, and valuing municipal securities may be more difficult. In addition, the secondary market for municipal securities is less well developed and liquid than other markets, and dealers may be less willing to offer and sell municipal securities in times of market turbulence. Changes in the financial condition of one or more individual municipal issuers (or one or more insurers of municipal issuers), or one for more defaults by municipal issuers or insurers, can adversely affect liquidity and valuations in the market for municipal securities. The value of municipal securities can also be adversely affected by regulatory and political developments affecting the ability of municipal issuers to pay interest or repay principal, actual or anticipated tax law changes or other legislative actions, and by uncertainties and public perceptions concerning these and other factors.

The rate of interest paid on municipal securities normally is lower than the rate of interest paid on fully taxable securities. Some municipal securities, such as general obligation issues, are backed by the issuer's taxing authority, while other municipal securities, such as revenue issues, are backed only by revenues from certain facilities or other sources and not by the issuer itself.

The municipal market can be susceptible to unusual volatility, particularly for lower-rated and unrated securities. Liquidity can be reduced unpredictably in response to overall economic conditions or credit tightening.

### Risks of the High Yield Tax Exempt Strategy

The strategy will not be diversified. Being non-diversified may magnify the strategy's losses from adverse events affecting a particular issuer.

To the extent the strategy invests in issuers of securities the payments on which are derived from gas, electric, telephone, sewer, water, healthcare, education, tobacco and transportation segments of the municipal bond market, the strategy may be subject to risks associated with such segments.

The profitability of companies in the healthcare segment may be affected by extensive government regulation and reform, restrictions on government reimbursement for medical expenses, rising costs of medical products, services and patient care, pricing pressure, an increased emphasis on outpatient services, limited number of products, industry innovation, changes in technologies and other market developments. Many healthcare companies depend on patent protection. The expiration of patents may adversely affect the profitability of these companies and the value of their securities. Healthcare companies are also subject to extensive litigation based on product liability and similar claims. Many new products are subject to approval of the Food and Drug Administration. The process of obtaining such approval can be long and costly. Healthcare companies are also subject to competitive forces that may make it difficult to raise prices and, in fact, may result in price discounting.

Companies in the transportation segment can be significantly affected by changes in the economy, fuel prices, labor relations, and insurance costs. The trend in the United States has been to deregulate the transportation industry, which could have a favorable long-term effect, but future government decisions could adversely affect transportation companies. Companies in the airline industry may be adversely affected by a downturn in economic conditions that can result in decreased demand for air travel. Due to the discretionary nature of business and leisure travel spending, airline industry revenues are heavily influenced by the condition of the U.S. economy and economies in other regions of the world. Due to the competitive nature of the airline industry, airline companies may not be able to pass on increased fuel prices to customers by increasing fares. In addition, the airline industry may be significantly affected by domestic and foreign acts of terrorism. Similarly, airports may be adversely affected by a downturn in economic conditions both nationally and in the regions they serve. Airports receive revenues through lease agreements with airlines. Airports also receive revenues from parking, advertising, land rent (e.g. hotels or office buildings), and such concessionaires as auto rental, restaurants, newsstands and duty-free shops. Reduced airline passenger levels and poor business conditions in the regions they serve can decrease airport revenues.

The education segment can be significantly affected by declining applicant pools, changes in student enrollment, decreases in state and federal financial aid to students, declines in endowment contributions and decreases in endowment portfolio values.

Certain revenue bonds are backed by settlements with tobacco companies. In 1998, the largest U.S. tobacco manufacturers reached an out of court agreement, known as the Master Settlement Agreement (the “MSA”), to settle claims against them by 46 states and six other U.S. jurisdictions. The tobacco manufacturers agreed to make annual payments to the government entities in exchange for the release of all litigation claims. A number of the states have sold bonds that are backed by those future payments. The settlement payments are based on factors, including, but not limited to, annual domestic cigarette shipments, cigarette consumption, inflation and the financial capability of participating tobacco companies. Payments could be

reduced if consumption decreases, if market share is lost to non-MSA manufacturers, or if there is a negative outcome in litigation regarding the MSA.

#### Liquidity Risk

US Government bonds generally have the greatest liquidity, meaning that they can be purchased and sold quickly at prices very close to the inter-dealer market. At the other end of the liquidity spectrum are small issues of low rated bonds.

#### Risk of Undervalued Bonds

OIA may select fixed income securities that they believe are undervalued. A risk is that OIA's analysis of the issuer may be incorrect and the fixed income securities may not be undervalued.

#### Review of Client Accounts

The Client Services department of OAM performs the following reviews with respect to IAS, OIA, STAR and PAS accounts:

##### Average Price Control Accounts Reconciliation

A daily review is performed to reconcile block trades versus customer allocations in the trading control accounts. The purpose of the review is to identify and correct any differences to determine that client allocations are complete and accurate.

##### OMS Capacity Discrepancy Report

OMS Capacity Discrepancy Report is a daily report that monitors the capacity of all order management system trades. The purpose of the report is to identify any trades not executed in an agency capacity so that they can be corrected.

##### FINET to Portfolio System Reconciliation

A daily comparison of cash and security positions is made between the books and records of the firm and the portfolio system to ensure proper calculation of performance and billing. This reconciliation allows for the identification of short positions, account switches or account closes.

##### Monthly Performance Review

Monthly performance returns on the portfolio system are reviewed and compared to other account returns under the same portfolio manager and index returns to look for outliers. The portfolio holdings and activity for outlying accounts may be examined to verify the performance return.

##### Reorganization/Tender Notices

A daily review of all notifications regarding corporate reorganization and tenders for managed accounts. The purpose of the review is to identify and respond to these notifications with the instructions of the portfolio manager within the specified time frame.



#### Daily Cash Additions / Withdrawals

A daily review of a books and records generated report to identify cash activity in managed accounts. The purpose of the report is to identify cash additions and withdrawals greater than \$5000 so that the portfolio manager can be notified. Accounts may be reviewed on other than a periodic basis if the account has an allocation to money market funds.

Clients have access to quarterly written performance reports regarding their account. Clients also receive a monthly custodian statement from Oppenheimer for accounts that are custodied at Oppenheimer.

OIA portfolio managers review accounts on a daily basis utilizing the accounting/performance system and analytical system Bondedge. Accounts are screened daily for cash flow and account balance information. Portfolios are screened bi-weekly for quantitative statistics including average duration, coupon and ratings information. On a quarterly basis OIA performance is reviewed by the OAM portfolio Review Board.

Factors Prompting Review of Client Accounts Other than a Periodic Review. Accounts may be reviewed more frequently as a result of any of the following:

- Cash balance that needs to be reinvested
- Sales of a security in the account
- Buying a security to replace a sold security or to utilize cash in the account
- Reviewing the duration of the account
- Reviewing overall credit quality of the account

Portfolios are reviewed as market conditions dictate for total return and interest rate sensitivity.

#### Proxy Voting

Oppenheimer Asset Management Inc. has engaged Glass Lewis & Co. Inc. (“Glass Lewis”) to provide research and advice on shareholder voting. OAM has reviewed and adopted Glass Lewis guidelines on proxy voting. Glass Lewis will submit its recommended vote to OAM and OAM will have the opportunity to accept or override the recommendation. For matters that are decided on a case by case basis, a decision will be made by OAM after consultation with Glass Lewis.

Clients may request information on how OAM has voted proxies for their accounts and may request OAM’s Proxy Voting Policies and Procedures by contacting:

Oppenheimer Asset Management Inc.  
85 Broad Street, New York, NY 10004  
Attn: Proxy Voting Department.

#### **ITEM 7. CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS**

The client’s Confidential Profile and a copy of the client’s advisory agreement is sent to the portfolio manager before the portfolio manager accepts the account. If a client communicates any



change in financial circumstances that would affect the management of the account, that information will be provided to the portfolio manager.

#### **ITEM 8. CLIENT CONTACT WITH PORTFOLIO MANAGERS**

Clients may request contact with their portfolio managers by first contacting their Financial Advisor. Discussions with a client's portfolio manager may include the client, the portfolio manager and a representative of OAM.

#### **ITEM 9: ADDITIONAL INFORMATION**

##### Disciplinary Information

On March 11, 2013, OAM and its affiliate, Oppenheimer Alternative Investment Management, LLC ("OAIM"), without admitting or denying the findings, consented to the issuance of an administrative order (the "Order") with the Securities and Exchange Commission ("SEC"). Also on March 11, 2013, OAM entered into an Assurance of Discontinuance ("AOD") with the Attorney General of the Commonwealth of Massachusetts ("MA AG") based on the same conduct that was the subject of the Order. The Order and the AOD concerned misrepresentations and omissions to investors and prospective investors about the asset value of one of the assets in a fund of private equity funds. The Order and the AOD found that while the written policies and procedures of OAM and OAIM required the compliance department to review and approve marketing materials, those procedures did not require a review of portfolio manager valuations and accordingly were not reasonably designed to ensure that valuations were determined in a manner consistent with written representations to investors. The SEC found that OAM and OAIM willfully violated, and were censured and ordered to cease and desist from future violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933 (the "Securities Act") and Section 206(4)-7 and Section 206(4)-8 of the Investment Advisers Act of 1940 (the "Advisers Act") and Rules 206(4)-7 and 206(4)-8 thereunder. The MA AG found that OAM and OAIM violated M.G.L.c. 93A. The Order and the AOD further provide that OAM and OAIM will pay a total of \$2,269,098 in disgorgement to investors who invested in the fund between October 2009 through June 2010, to pay a civil penalty of \$617,579 to the SEC, to pay a penalty of \$132,421 to the Commonwealth of Massachusetts, that OAM and OAIM will retain an independent consultant to conduct a review of their valuation policies and procedures.

##### Code of Ethics, Participation or Interest in Client Transaction and Personal Trading

OAM has adopted a written Code of Ethics pursuant to Rule 204A-1 under the Investment Advisers Act of 1940. A copy of the Code of Ethics will be provided upon request to any client or prospective client. The purpose of the Code is to set forth standards of conduct expected of advisory personnel and address conflicts, such as front running, that arise from personal trading by advisory personnel. The Code of Ethics addresses these conflicts as follows:

1. Certain advisory personnel with access to the securities trading of advisory clients are deemed as "access persons";
2. These access persons of the adviser are required to certify that they are in compliance with the Code of Ethics on an annual basis;
3. Access persons are also required to provide compliance personnel with brokerage accounts through which they conduct personal trading, and

4. Access persons are required to obtain written pre-clearance by compliance personnel of all personal securities transactions (other than certain exceptions to this requirement as defined in the Code).

OAM and certain of its affiliates are engaged or may engage in investment activities for separate accounts for individuals and institutions or for their own accounts. These various accounts may from time to time purchase, sell or hold certain investments which are also being purchased, sold or held by other client accounts of OAM. For client accounts of OAM pursuing the same investment strategy, OAM will allocate investments among these accounts on an equitable basis, taking into account such factors as the relative amounts of capital available for new investments. OAM and its officers and employees devote as much of their time to the activities of its clients as OAM deems necessary and appropriate.

Oppenheimer acts as the placement agent for the sale of interests in collective investment vehicles for which subsidiaries of OAM serve as investment adviser or general partner.

Oppenheimer, a registered broker-dealer that is affiliated with OAM and which effects transactions on an agency basis on behalf of its clients and as principal for its own account in those securities in which it makes a market, may, on occasion, act as broker for an advisory client of Oppenheimer or OAM on one side and a client for whom it (or its affiliates) does not act as investment adviser on the other side of a securities transaction.

All clients are advised through clauses in the advisory contract that Oppenheimer is a broker-dealer and may have a position or interest in securities which are recommended and purchased for their accounts. In their capacity as registered representatives of Oppenheimer, Financial Advisors may indirectly receive a portion of client commissions paid to Oppenheimer as well as other compensation paid to OAM.

Albert Lowenthal, Chairman and Bryan McKigney, Chief Operating Officer and Managing Director of OAM are registered representatives of Oppenheimer but do not function in that capacity. John Blau, the President of OAM, is a registered representative of Oppenheimer and is financial advisor to a limited number of clients who have advisory accounts with OAM and who purchase interests in hedge funds sold by Oppenheimer. Some of these funds may be sponsored by OAM. Possible conflicts between Mr. Blau's duties as President of OAM and his client relationships involve allocation of time and whether or not his clients would be treated more favorably than other advisory clients of OAM. These client relationships do not represent a material amount of Mr. Blau's duties or compensation. Activity in these accounts will be monitored on a periodic basis.

#### Other Financial Activities and Affiliations

OAM's advisory programs are offered to clients by financial advisors of Oppenheimer.

OAM is the managing member of several subsidiaries that act as investment adviser to registered investment companies and other pooled investment vehicles. These investment companies and pooled investment vehicles pay performance fees as well as management fees. To the extent that OAM includes an allocation to alternative investments in the asset allocation advice it gives to clients, OAM may have a material conflict of interest in recommending an asset class that will pay greater compensation to OAM or its affiliates than other asset classes. Financial advisors

receive a portion of the management fee and incentive fee paid by collective investment vehicles to subsidiaries of OAM and may have a financial incentive to recommend those collective investment vehicles.

Portfolio managers or their affiliates that participate in OAM advisory programs may have other business relationships with Oppenheimer such as institutional trading or investment banking. OAM does not consider any such relationships when determining whether or not to recommend a portfolio manager or mutual fund for one of its advisory programs.

OAM is an affiliate of Oppenheimer & Co. Inc., a registered broker dealer and full service investment firm as well as a registered investment adviser. Oppenheimer provides services such as investment banking, equity research, institutional sales, municipal finance and debt capital markets. Oppenheimer Trust Company, an affiliate of Oppenheimer, provides trust services to high net worth individuals, not for profit organizations and businesses. Oppenheimer Trust Company may recommend OAM advisory programs or products of OAM to its trust clients.

#### Research

Oppenheimer has procedures in place to avoid improper communications between Oppenheimer research employees and employees of other Oppenheimer departments including Financial Advisors of Oppenheimer. Oppenheimer Research employees are generally prohibited from, among other things:

- Discussing with any person outside of the Research Department and the Legal and Compliance Department any unpublished research reports, opinions or recommendations;
- Recommending the purchase or sale of, a security ahead of the issuance of research or changes to a view on a security;
- Recommending the purchase or sale of, a security of an issuer for any account while in possession of material non-public information on the issuer;
- Providing unpublished drafts of research reports for review or approval to any non-Research personnel;
- Providing unpublished drafts of research reports for review or approval to third parties, except pursuant to authorized gate-keeping procedures;
- Making any oral, written, or electronic communication, either internally or externally, that is inconsistent with an analyst's research, opinions or analysis; and
- Disclosing material changes to opinions, recommendations or price target to select persons prior to general publication.

#### Investment Banking

In order to prevent the improper use of material, non-public information from one part of Oppenheimer to another, Oppenheimer has created "information barriers" or "information walls" around each department that holds this information. Each business unit that regularly holds customer confidential information (such as investment banking) is on the "Private Side" of the information wall. In contrast, each business unit that does not hold confidential information is on the "Public Side" of the wall. Financial Advisors of Oppenheimer are considered to be on the "Public Side" of the wall. Employees on the Private Side of each information wall are prohibited

from providing any material, non-public information to employees on the Public Side of the information wall.

Regulatory requirements prohibit Private Side investment banking personnel who are in possession of material, non-public information from discussing a pending transaction with individuals on the Public Side (or employees on the Private Side who do not have a “need to know”). Only those employees directly involved in or necessary to the due diligence process of an investment banking transaction are permitted to be brought “over the wall.”

#### Client Referrals and Other Compensation

Portfolio managers that participate in the various IAS or STAR programs and mutual funds that are available in the PAS Flex PAS Managed programs do not pay any fees to OAM or Oppenheimer for participating in these programs. Portfolio managers and advisers or distributors of mutual funds available in OAM advisory programs may pay for or reimburse for various costs relating to client and prospective client meeting sales and marketing materials and educational training and sales meetings held with Financial Advisors of Oppenheimer and personnel of OAM. These portfolio managers and affiliates of mutual funds also may pay for the cost of reasonable entertainment in connection with OAM sponsored or client related events. Portfolio managers in the IAS program pay OAM a fee of five basis points on the assets that they manage in the program for administrative, accounting and other services provided by OAM.

The funds available in the PAS Flex and PAS Managed programs also may be purchased by clients in their brokerage accounts but are sold with the applicable sales charge.

Certain fund companies pay Oppenheimer a mutual fund support fee for marketing, training operations and systems support with respect to mutual fund shares sold to clients in their Oppenheimer brokerage accounts. These payments which are known as revenue sharing payments are not made with respect to any fund purchases in OAM advisory programs.

OAM pays cash compensation for client referrals in accordance with Rule 206(4)-3 under the Investment Advisers Act of 1940. Compensation paid is a percentage of the fee payable by the referred clients and may be paid as long as the client maintains an advisory account with OAM.

Cash assets in the advisory programs will be invested at certain participating banks in the Advantage Bank Deposit Program. The Advantage Bank Deposit Program may be significantly more profitable to Oppenheimer than money market fund sweep vehicles. The fee payable to Oppenheimer may be as high as 5% of the household balances invested in the Advantage Bank Deposit Program. Oppenheimer will waive the payment of any fee from each Deposit Bank for retirement plan accounts.

Oppenheimer also compensates third parties for client referrals. Compensation paid is a percentage of the fee payable by the referred clients and includes fees paid for OAM advisory programs.