

**RE Advisers Corporation**

**Investment Advisory Clients**

**January 1, 2015**

This brochure provides information about the qualifications and business practices of RE Advisers Corporation (“RE Advisers”), an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”). If you have any questions about the contents of this brochure, please contact Danielle Sieverling, RE Advisers’ Chief Compliance Officer (“CCO”), at 703-907-5993. The information in this brochure has not been approved or verified by the SEC or by any state securities authority.

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

Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

RE Advisers Corporation  
4301 Wilson Boulevard  
Arlington, VA 22203  
Tel: 1-866-673-2299  
Fax: 703-907-6604

---

**Item 2. Material Changes**

**There are no material changes since the last annual update of the brochure on March 31, 2014. In the future, if there are material changes to this brochure, this section will provide a summary of such changes.**

---

---

## TABLE OF CONTENTS

Item 2.	Material Changes .....	2
Item 3.	Table of Contents.....	3
Item 4.	Advisory Business .....	4
Item 5.	Fees and Compensation .....	4
Item 6.	Performance-Based Fees and Side-by-Side Management.....	6
Item 7.	Types of Clients .....	7
Item 8.	Methods of Analysis, Investment Strategies and Risk of Loss .....	7
Item 9.	Disciplinary Information.....	10
Item 10.	Other Financial Industry Activities and Affiliations .....	11
Item 11.	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	12
Item 12.	Brokerage Practices .....	13
Item 13.	Review of Accounts.....	16
Item 14.	Client Referrals and Other Compensation .....	17
Item 15.	Custody .....	17
Item 16.	Investment Discretion.....	17
Item 17.	Voting Client Securities .....	18
Item 18.	Financial Information .....	18

---

**Item 4. Advisory Business**

RE Advisers, incorporated in the Commonwealth of Virginia in 1995 (formerly incorporated in the District of Columbia in 1990), is a direct, wholly-owned subsidiary of RE Investment Corporation (“RE Investment”), which is a direct, wholly-owned subsidiary of NRECA United, Inc., a holding company of the National Rural Electric Cooperative Association (“NRECA”). NRECA is a not-for-profit organization, which serves and represents the nation’s consumer-owned rural electric cooperatives. RE Advisers is registered with the SEC under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), and has its principal place of business in Arlington, Virginia.

Pursuant to an investment advisory agreement, RE Advisers provides investment supervisory services to private advisory clients and serves as the investment adviser to seven of the series of Homestead Funds, Inc. (“Homestead Funds”), an investment company registered under the Investment Company Act of 1940, as amended (the “1940 Act”). As investment adviser, RE Advisers is responsible for selecting investments, managing the portfolios and overseeing the investment strategies and policies for the Funds, subject to the general supervision of the Homestead Funds’ Board of Directors.

In addition to management of the Homestead Funds, RE Advisers provides investment advice to a pension and profit sharing plan, a self-insured plan and a corporation (“private advisory clients”) (collectively with the Homestead Funds, “clients”) under written investment advisory agreements. These services are provided to each private advisory client on the basis of the client's individual circumstances and needs in a manner consistent with the agreement, including the private advisory client's investment policies or guidelines that are set forth or referred to in or attached to the agreement.

Currently, RE Advisers provides tailored investment advisory services to each of its clients, based on the investment guidelines and restrictions contained in the agreement. The clients may impose restrictions on investing in certain securities or types of securities.

As of December 31, 2013, RE Advisers managed \$2,848,282,075 in client assets on a discretionary basis.

---

**Item 5. Fees and Compensation**

All of RE Advisers’ compensation is asset based.

There are several fee schedules that RE Advisers employs. The fees are negotiable and determined based on the client’s assets under management and investment strategy, including investment restrictions and limitations. They are as follows:

Fee Schedule for the Daily Income Fund:

.50% of average daily net assets

Fee Schedule for the Short-Term Government Securities Fund:

.45% of average daily net assets

Fee Schedule for the Short-Term Bond Fund:

.60% of average daily net assets

Fee Schedule for the Value Fund:

.65% of average daily net assets up to \$200 million

.50% of average daily net assets up to the next \$200 million

.40% of average daily net assets over \$400 million

Fee Schedule for the Growth Fund:

.65% of average daily net assets up to \$250 million

.60% of average daily net assets over \$250 million

Fee Schedule for the Small-Company Stock Fund:

.85% of average daily net assets up to \$200 million

.75% of average daily net assets over \$200 million

Fee Schedule for International Value Fund:

.75% of average daily net assets up to \$300 million

.65% of average daily net assets up to the next \$100 million

.55% of average daily net assets up to the next \$100 million

.50% in excess of \$500 million

Fee Schedule for Equity Accounts:

.40% of the market value of portfolio assets

Fee Schedule for Fixed Income Accounts:

.10% - .40% of the market value of portfolio assets

RE Advisers has entered into contractual expense limitation agreements with each series of Homestead Funds. The expense limitation agreements provide that to the extent the annual operating expenses incurred by a Fund exceed the stated percentage of the Fund's average daily net assets, such excess amount will be the liability of RE Advisers. Each expense limitation agreement is for a one-year time period. At the end of that period, RE Advisers may revise, renew or discontinue the agreement.

Additionally, for the money market fund, in light of current economic and market conditions, RE Advisers has implemented a voluntary fee waiver and expense reimbursement arrangement. This arrangement assists the money market fund in attempting to maintain a positive yield. There is no guarantee that the fund will maintain a positive yield. This voluntary arrangement may be revised, discontinued or re-continued at any time.

RE Advisers bills clients for investment management fees incurred. The fee accruals for the Homestead Funds are paid monthly in arrears to RE Advisers. These fees are paid following a request of Homestead Funds by the Homestead Funds custodian from the Homestead Funds account directly to RE Advisers. Private advisory clients are sent quarterly invoices for their respective fees and submit payment to RE Advisers. RE

Advisers does not deduct the investment management fee from the clients' accounts. Rather, it bills its client accounts, and the client sends payment by wire to RE Advisers' bank account. If a new client account is established during the quarter, the investment management fee will be charged as of the effective date of the investment management agreement. If a client terminates an account, the investment management fee will be charged on a prorated basis.

In addition to paying investment management fees, clients may also be subject to other investment expenses such as custodial charges, mutual fund fees (as discussed below) and other related costs associated with products or services that may be necessary or incidental to such investments or accounts. Additionally, clients will pay brokerage fees, commissions and other transaction costs. See Item 12 – Brokerage Practices, below, for additional information.

The recommendation of Homestead Funds to a private advisory client raises a conflict of interest because RE Advisers serves as the investment adviser to Homestead Funds. In an effort to address this conflict of interest, a private advisory client will not be charged an advisory fee for those assets under management invested in Homestead Funds. It should be noted, however, that when private advisory client assets are invested in Homestead Funds, the private advisory client still indirectly pays an advisory fee to RE Advisers equal to the advisory fee paid by Homestead Funds to RE Advisers that is applicable to the shares of Homestead Funds owned by the private advisory client. Thus, a private advisory client whose assets are invested in Homestead Funds may pay an indirect advisory fee that is higher than the waived advisory fee set forth in the investment advisory agreement the private advisory client has with RE Advisers. Generally, private advisory clients are not invested in any investment companies other than Homesteads Funds or exchange-traded funds, and therefore are not subject to any additional investment management fees. However, RE Advisers may use sweep vehicles for excess cash, which may charge additional investment management fees and may invest in mutual funds or commingled trusts.

Additionally, you should be aware that RE Advisers' portfolio managers, who also serve as portfolio managers for NRECA accounts, are compensated with a combination of base pay and variable pay based on the performance of the NRECA accounts and Homestead Funds they manage. This presents a potential conflict of interest, as it incentivizes portfolio managers to prefer one account over another. Aware of this conflict, RE Advisers has adopted trade allocation procedures that set forth fair treatment of all accounts and prohibit cross trades. Additionally, the CCO regularly reviews the portfolio managers' trading activities to monitor that all accounts are treated equitably.

---

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

This item is not applicable.

---

**Item 7. Types of Clients**

RE Advisers' clients consist of investment companies, pension and profit sharing plans, corporations and other business entities.

Generally, RE Advisers requires a minimum dollar value of assets of \$5,000,000 for a private advisory client to open a separately managed account. However, this amount is negotiable. If the account size falls below the minimum requirement due to market fluctuations only, a private advisory client will not be required to invest additional funds with RE Advisers to meet the minimum account size.

---

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

RE Advisers utilizes a variety of methods and strategies to make investment decisions and recommendations.

RE Advisers employs the following investment strategies:

*Equity Strategy.* RE Advisers primarily seeks capital growth over the long term by investing in stocks of established companies that RE Advisers believes to be undervalued. RE Advisers' portfolios and managed accounts may execute the strategy with diversified portfolios focused on small capitalization, mixed capitalization or large capitalization companies.

To determine whether a stock is undervalued, RE Advisers considers, among other factors, earnings valuations, debt ratios and any competitive advantages a company may have. Stock selection is made with the belief that businesses have an underlying value that is not always reflected by the share price, especially over the short term. RE Advisers selects stocks that may benefit over time from a more reasonable market assessment of fundamental value.

*Fixed Income Strategy.* RE Advisers' fixed-income strategy primarily seeks current income while maintaining a low degree of fluctuation. In selecting the portfolio holdings for clients, RE Advisers considers its outlook for the economy, monetary policy, interest rates and credit spreads. RE Advisers' goal is to maximize the client's total return by investing in securities that exhibit the most favorable risk/reward trade-off in the most attractive market sectors while maintaining adequate portfolio liquidity.

*Money Market Fund.* RE Advisers manages one money market fund, the Daily Income Fund, which is a series of the Homestead Funds. It is managed to earn current income and to maintain a stable net asset value of \$1.00 per share. RE Advisers invests the assets of the Daily Income Fund in high-quality, U.S. dollar-denominated money market instruments. RE Advisers selects only instruments that both meet the eligibility requirements for a money market fund and are placed on the Fund's approved list. Before an issuer is added to the list, RE Advisers prepares a written credit report. A credit committee discusses and approves all additions to the list. RE Advisers seeks to diversify the Fund's portfolio by industry and maturity date, with an emphasis on liquidity.

Investing in securities involves risks of loss that clients should be prepared to bear.

The material risks associated with the portfolio securities and investment techniques used to implement the above investment strategies include:

*Investment Risk.* The chance the value of an investment will decline in response to a company, industry or market setback.

*Manager Risk.* The chance that RE Advisers' decisions, particularly security selection, will cause the managed account to underperform similar investments.

*Style Risk.* The chance that returns on stocks within the style in which the managed accounts invest will trail returns of stocks representing other styles or the market overall.

*Interest Rate Risk.* Generally, the value of fixed-income securities changes inversely with changes in interest rates. As interest rates rise, the market value of fixed-income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed-income securities tends to increase. This risk is greater for long-term securities than for short-term securities.

*Credit Risk.* The chance an issuer will not make timely payments of principal or interest.

*Income Risk.* The chance a decline in interest rates will cause the value of the investment to decline.

*Issuer Risk.* The chance that the value of a security may decline because of adverse events or circumstances that directly relate to conditions at the issuer or any entity providing it credit or liquidity support.

*Sector Risk.* The chance that, if an account focuses on one or more sectors of the economy, its performance will correspond with the performance of those sectors. An account that invests in particular sectors is particularly susceptible to the impact of market, economic, regulatory and other factors affecting those sectors. As a result, at such times, the portfolio's value may fluctuate more widely than if it had invested across sectors.

*Lack of Diversification Risk.* The chance that an account will not be diversified among a wide range of issuers, security types or industry sectors. Accordingly, the account may be subject to more rapid changes in value than would be the case if it maintained a wider diversification in its portfolio.

*Foreign Risk.* The chance that investing in foreign (non-U.S.) securities may result in an account experiencing more rapid and extreme changes than an account that invests exclusively in securities of U.S. companies, due to smaller markets, differing reporting, accounting and auditing standards, nationalization, expropriation or confiscatory taxation, currency blockage, or political changes of diplomatic developments. Foreign securities may also be less liquid and more difficult to value than securities of U.S. issuers.



The following risks are associated with securities RE Advisers may recommend:

*Equity Securities.* The value of equity securities fluctuates in response to issuer, political, market, and economic developments. Fluctuations can be dramatic over the short as well as long term, and different parts of the market and different types of equity securities can react differently to these developments. For example, large cap stocks can react differently from small cap stocks, and "growth" stocks can react differently from "value" stocks. Issuer, political, or economic developments can affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole. Changes in the financial condition of a single issuer can impact the market as a whole. Terrorism and related geopolitical risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally.

*Small-Company Securities.* Investments in stocks of smaller capitalization companies may be more volatile than investments in stocks of larger, more established companies. These companies may have limited product lines, markets or financial resources, or they may depend on a few key employees.

*Fixed-Income and Debt Securities.* Investment in fixed-income and debt securities, including those securities that meet the eligibility requirements for a money market fund, subject a client's portfolios to the risk that the value of these securities overall will decline because of rising interest rates. Similarly, portfolios that hold such securities are subject to the risk that the portfolio's income will decline because of falling interest rates. Investments in fixed-income and debt securities will also be subject to the credit risk created when a debt issuer fails to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that debt to decline.

*Commercial Paper.* Commercial paper consists of short-term unsecured promissory notes issued by companies or other entities in order to finance their current operations. Commercial paper is usually sold on a discount basis with maturities generally up to 270 days. The value of commercial paper may be affected by changes in the credit rating or financial condition of the issuing entities. The value of commercial paper will tend to fall when interest rates rise and rise when interest rates fall.

*U.S. Dollar-Denominated Debt Securities of Foreign Issuers.* These securities may respond negatively to adverse foreign political or economic developments. In the case of foreign companies not registered in the U.S., there is generally less publicly available information regarding the issuer, and foreign companies are subject to different accounting, auditing and financial reporting standards. These conditions may have an impact on rating organizations' and RE Advisers' ability to accurately assess and monitor an issuer's financial condition.

*Mortgage-Backed Securities.* Mortgage-backed securities represent a share in the principal and interest payments made on a pool of underlying mortgages. The value of mortgage-backed securities may be affected by, among other things, changes or perceived changes in: interest rates, factors concerning the interests in and structure of the issuer or the originator of the mortgages, the creditworthiness of the entities that provide any supporting

letters of credit, surety bonds or other credit enhancements, or the market's assessment of the quality of underlying assets. As with other fixed-income securities, when interest rates rise, the value of mortgage pass-through securities generally declines. However, when interest rates decline, the value of mortgage pass-through securities may not increase as much as other fixed-income securities of comparable maturity because a decline in interest rates increases the likelihood that borrowers will prepay. Collateralized mortgage obligations are separated into multiple classes, each of which may have different cash flow characteristics depending on underlying prepayment assumptions. In addition, mortgage-backed securities may be subject to prepayment risk.

*Asset-Backed Securities.* Asset-backed securities represent either fractional interests or participation in pools of leases, retail installment loans or revolving credit receivables. Underlying automobile sales contracts and credit card receivables are subject to prepayment, which may shorten the securities' weighted average life and reduce the overall return. Investors also may experience delays in payment if the full amounts due on underlying loans, leases or receivables are not realized because of unanticipated legal or administrative costs of enforcing the contracts or because of depreciation or damage to the collateral securing the contract or other factors. The value of these securities may fluctuate with changes in the market's perception of the creditworthiness of the servicing agent for the pool, the originator of the pool or the financial institution providing credit support enhancement for the pool. In addition, these securities may be subject to prepayment risk.

*Municipal Bonds.* Municipal bonds generally are issued by or on behalf of states and local governments and their agencies, authorities and other instrumentalities. Municipal bonds are subject to interest rate, credit and market risk. Municipal bonds are also subject to the risk that litigation, legislation or other political events, local business or economic conditions, or the bankruptcy of the issuer could have a significant effect on an issuer's ability to make payments of principal and/or interest. Lower rated municipal bonds are subject to greater credit and market risk than higher quality municipal bonds.

*Investment Company Securities.* The risks of owning an investment company are generally similar to the risks of investing directly in the securities in which the investment company invests. However, an investment company may not achieve its investment objective or execute its investment strategy effectively, which may adversely impact portfolio performance. Additionally, investments in investment companies are subject to their pro rata share of that investment company's fees and expenses. Because exchange-traded funds trade on a secondary market, their shares may trade at a premium or discount to their actual net asset value of their portfolio securities, and their shares may have greater volatility because of the potential lack of liquidity.

*Use of Sub-Advisers.* RE Advisers is responsible for overseeing the selection of investments, management of the portfolio and the setting of investment strategies for the Growth Fund by T. Rowe Price Associates, Inc. ("T. Rowe Price") and for the International Value Fund by Mercator Asset Management, L.P. ("Mercator"), the respective subadvisers of those Funds.

---

## **Item 9. Disciplinary Information**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of RE Advisers' advisory business or the integrity of its management.

---

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

RE Advisers is a wholly-owned subsidiary of RE Investment, a limited-purpose registered broker-dealer that is a member of the Financial Industry Regulatory Authority ("FINRA"). As a limited purpose broker-dealer, RE Investment does not handle, hold or own customer funds or securities, introduce or carry customer accounts or engage in the sale or solicitation of securities products except for investment company products. RE Investment is the distributor and principal underwriter for Homestead Funds and does not receive any commissions or other compensation for the services it provides. Certain employees of RE Advisers are also registered representatives of RE Investment.

As an indirect wholly-owned subsidiary of NRECA, RE Advisers is a related party of NRECA. Those persons who are officers, directors and employees of RE Advisers are prohibited from providing investment advice to participants in the NRECA Plans.

As noted above, cross trades are prohibited. RE Advisers may buy or sell securities for one of its clients that also may be bought or sold for the NRECA Plans. Any such transaction would be based on the judgment that the specific purchase or sale was appropriate for both the client and the NRECA Plans under the circumstances for which the security was bought or sold. Where such transactions are entered into on a simultaneous basis, the transactions will be allocated in an equitable manner in accordance with written procedures. Such written procedures provide RE Advisers guidance in allocating purchase and sales transactions made on a combined basis for client accounts and the NRECA plans. The procedures state that RE Advisers must seek to achieve the same net unit price of securities for each client and must seek to allocate, as nearly as practicable, such transactions on a pro-rated basis substantially in proportion to the amounts ordered to be purchased or sold by each party. Additionally, RE Advisers' procedures also require the objective allocation for limited opportunities (such as initial public offerings and private placements) to ensure fair and equitable allocation among accounts. These areas are monitored by RE Advisers. See Item 12 – Brokerage Practices - Trade Aggregation, for additional information.

All of RE Advisers' directors, officers and employees are employed and compensated by NRECA. Additionally, RE Advisers' directors, officers and employees may have responsibilities with RE Investment, and some have responsibilities with Homestead Funds, which creates a conflict of interest between RE Advisers and the other entities. Aware of this conflict, RE Advisers has assessed the risks and developed internal controls to avoid to the extent possible any conflict. These controls include procedures such as trade aggregation, trade processing, best execution, personal trading and compliance with investment guidelines. Additionally, RE Advisers conducts the annual monitoring program as required by applicable law that evaluates whether RE Advisers has established controls reasonably designed to prevent violation of the applicable laws. RE Advisers periodically evaluates those policies and procedures to ensure that they are working as designed.

RE Advisers also serves as the administrator for the Homestead Funds.

---

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

RE Advisers requires its officers, directors and other access persons to comply with its Code of Ethics (the “Code”). The Code has been adopted by Homestead Funds, RE Advisers and RE Investment (collectively, the “Company”). The Code obligates the Company to put the interests of the Company’s clients before its own interests and to act honestly and fairly in all respects in their dealings with clients. All of RE Advisers’ personnel are also required to comply with applicable federal securities laws. Clients and prospective clients can obtain a copy of the Code by contacting Danielle Sieverling, CCO, at 703-907-5993 or by email at [danielle.sieverling@nreca.coop](mailto:danielle.sieverling@nreca.coop). See below for further provisions of the Code as they relate to the preclearing and reporting of securities transactions by related persons.

The purpose of the Code is to ensure that all employees of the Company apply high ethical standards in their daily performance and do not participate in activities which may lead to or give the appearance of conflicts of interest, insider trading and other forms of prohibited or unethical business conduct. The Code describes the ethical behavior required of Company personnel and, among other things, requires officers, interested directors and other access persons to pre-clear certain personal trades in covered securities with the CCO, who may deny permission to execute the transaction if such transaction will have any adverse economic impact on one of its clients. Company personnel are prohibited from buying or selling a reportable security within seven calendar days after RE Advisers has traded in the same (or related) issuer. Additionally, trades where the CCO has deemed a higher risk of conflict of interest exists, such as initial public offerings and options, futures and short sales on securities owned by RE Advisers’ client accounts, are prohibited in any dollar amount. Furthermore, the Code prohibits all access persons from executing personal securities transactions of any kind in any securities on the restricted list maintained by the CCO.

Portfolio managers and analysts who are aware of RE Advisers’ security trades are subject to additional prohibitions under the Code, including prohibitions against (1) delaying or forgoing the purchase of a security for a client so that they may purchase it in their personal account; (2) buying or selling a security seven calendar days before or after RE Advisers has traded in the same (or related) issuer; and (3) buying and then selling at a profit, or selling and then repurchasing at a lower price, any security owned by an RE Advisers’ managed account within 60 calendar days. Additionally, on a quarterly basis, these employees are required to disclose any issuer/holding in which they own 5% or more.

All of RE Advisers’ access persons are required to provide quarterly reports of personal trading activities in covered securities and annual securities holdings reports. All access persons are required to provide duplicate brokerage statements to RE Advisers. RE Advisers routinely reviews the personal trading activities of officers, interested directors, portfolio managers, analysts and other access persons for potential conflicts of interest and transactions made in securities held on the restricted list, as well as other violations of the Code. All Code violations are reported to the Homestead Funds’ Board of Directors. The Company provides annual, as well as as-needed, training on the Code.

Strict compliance with the provisions the Code is a basic condition of employment with the Company. A material breach of the provisions of the Code may constitute grounds for disciplinary action, up to and including termination. Additionally, the Code includes tiered sanctions for repeat violations, which include increasing monetary sanctions, reporting of violations to senior management and freezes on an employee's personal trading.

RE Advisers, in the course of its investment management activities may come into possession of confidential or material non-public information about issuers, including issuers in which it or its related persons have invested or seek to invest on behalf of clients. RE Advisers is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of any other person, regardless of whether such person is a client. RE Advisers maintains and enforces written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that it is meeting its obligations to clients and remains in compliance with applicable law. In certain circumstances, RE Advisers may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security, but RE Advisers will be prohibited from communicating such information to the client or using such information for the client's benefit. In such circumstances, RE Advisers will have no responsibility or liability to the client for not disclosing such information to the client, or not using such information for the client's benefit, as a result of following its policies and procedures designed to provide reasonable assurances that it is complying with the applicable law.

In addition, RE Advisers may from time to time invest in the same securities that it or a related person recommends to clients. Such practices present a conflict where, because of the information it has, RE Advisers or its related person are in a position to trade in a manner that could adversely affect clients (e.g. place their own trades before or after client trades are executed in order to benefit from any price movements due to the client's trades). In addition to affecting RE Advisers' or its related persons' objectivity, these practices by RE Advisers or its related persons may also harm clients by adversely affecting the price at which the client's trades are executed. RE Advisers has adopted procedures as noted under Item 10 and Item 12 related to the NRECA Plans to address this conflict as well as the provisions of the Code noted above. Additionally, as discussed above, portfolio managers and analysts are prohibited under the Code from delaying a purchase or sale of a security for a client so that he or she may buy it for their own account.

---

## **Item 12. Brokerage Practices**

### Research and Other Soft Dollar Benefits

RE Advisers is responsible for making decisions for clients with respect to the purchase and sale of portfolio securities. RE Advisers also is responsible for the implementation of those decisions, including the selection of broker-dealers to effect portfolio transactions, and the negotiation of the brokerage commissions. In selecting a broker-dealer for each specific transaction, RE Advisers chooses a broker-dealer from a broker list approved by RE Advisers' Brokerage Committee (the "Committee"), consisting of certain RE Advisers' investment and compliance professionals, which it deems most capable of providing the services necessary to obtain the most favorable execution. The portfolio manager considers

the full range of brokerage services applicable to a particular transaction when determining the broker-dealer for the transaction, which may include, but is not limited to: market maker in a particular security, liquidity, price, timing, research, bunched trades, capability of floor brokers or traders, competent block trading coverage, ability to position, capital strength and stability, reliable and accurate communications and settlement processing, use of automation, knowledge of other buyers or sellers, arbitrage skills, administrative ability, underwriting and provision of information on a particular security or market in which the transaction is to occur. The specific criteria will vary depending upon the nature of the transaction, the market in which it is executed, and the extent to which it is possible to select from multiple broker-dealers. In selecting a broker-dealer to execute transaction and determining the reasonableness of the broker-dealer's compensation, RE Advisers need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. A client may be deemed to be paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate. Brokerage firms that offer no research services but make available securities from a trading perspective may be used. The Committee meets quarterly to evaluate the broker-dealers used by RE Advisers to execute trades.

RE Advisers may receive research and other products or services other than execution from a broker-dealer in connection with client securities transactions. This is known as a "soft-dollar" relationship. RE Advisers will limit the use of "soft dollars" to obtain research and brokerage services to services that constitute research and brokerage within the meaning of Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)"). Research services within Section 28(e) may include, but are not limited to, written research, conference calls with brokers, analyst access, conference or field trip invitations, financial evaluation and stock valuation software and service, and broker assisted management contact.

When RE Advisers uses client commissions to obtain Section 28(e) eligible research and brokerage products or services, the Committee meets quarterly to review and evaluate its soft dollar practices and to determine in good faith whether, with respect to any research or other products and services were reasonable in relation to the value of the brokerage, research or other products and services provided by the broker-dealer. The Committee evaluates supporting documentation, including best execution analytics, commission reports and brokerage services provided.

The use of client commissions to obtain research and brokerage products and services raises conflicts of interest. For example, RE Advisers will not have to pay for the products and services itself. This creates an incentive for RE Advisers to select a broker-dealer based on its interest in receiving those products or services.

RE Advisers may cause clients to pay commissions higher than those charged by other broker-dealers in return for soft dollar benefits, resulting in higher transaction costs for clients.

Research and brokerage services obtained by the use of commissions arising from a client's portfolio transactions may be used by RE Advisers in its other investment activities, including, for the benefit of other client accounts. RE Advisers does not seek to allocate soft dollar benefits to client accounts proportionately to the soft dollars received.

During RE Advisers' last fiscal year, as a result of client brokerage commissions, the company and/or its related persons received the following: written research, broker-hosted conference call, analyst access, conference and field trip invitations, financial evaluation and stock valuation software and service, and broker assisted management contact.

In determining whether to direct client brokerage transactions to particular broker-dealers, the Committee meets to review and evaluate the soft dollar practices of RE Advisers, approve the broker list, and determine in good faith whether, with respect to any research or other products or services received from a broker-dealer, the commissions used to obtain those products and services were reasonable in relation to the value of the brokerage, research or other products or services provided by the broker-dealer.

It is RE Advisers' policy that transactions will not be allocated to broker-dealers based on the sale of Homestead Fund shares. However, RE Advisers is not prohibited from using broker-dealers who sell shares of Homestead Fund so long as the sale of Fund shares is not considered when selecting the broker-dealer for the transaction.

#### Directed Brokerage

Under certain circumstances, RE Advisers may permit a private advisory client to direct it to execute the client's trades with a specified broker-dealer. When a client directs RE Advisers to use a specified broker-dealer to execute all or a portion of the client's securities transactions, RE Advisers treats the client direction as a decision by the client to retain, to the extent of the direction, the discretion RE Advisers would otherwise have in selecting broker-dealers to effect transactions and in negotiating commissions for the client's account. Although RE Advisers attempts to effect such transaction in a manner consistent with its policy of seeking best execution, there may be occasions where it is unable to do so, in which RE Advisers will continue to comply with the client's instructions. When the directed broker-dealer is unable to execute a trade, RE Advisers will select broker-dealers other than the directed broker-dealer to effect client securities transactions. A client who directs RE Advisers to use a particular broker-dealer to effect transactions should consider whether such direction may result in certain costs or disadvantages to the client. Such costs may include higher brokerage commissions and/or less favorable execution of transactions. By permitting a client to direct RE Advisers to execute the client's trades through a specified broker-dealer, RE Advisers will make no attempt to negotiate commissions on behalf of the client and as a result, in some transactions such clients may pay materially disparate commissions depending on their commission arrangement with the specific broker-dealer.

While RE Advisers clients are permitted to direct brokerage, none currently do so at this time.

#### Trade Aggregation

RE Advisers from time to time purchases and sells the same security for Homestead Funds, clients and the NRECA Plans (see Item 10 - Other Financial Industry Activities and Affiliations above), using the same executing broker. The aggregation or blocking of client transactions ("bunching") may allow RE Advisers to execute transactions in a more timely, equitable and efficient manner. This practice may enable RE Advisers to seek more

favorable executions and net prices for the combined order. In these instances, clients participating in any bunched trades will receive an average share price, and transaction costs will be shared equally on a pro-rata basis. Adjustments or changes may be made under certain circumstances, such as to avoid odd lots or excessively small allocations. If the order at a particular broker is filled at several different prices, through multiple trades, generally all such participating accounts will receive the average price and pay the average commission, subject to odd lots, rounding and market practice. If an aggregated order is only partially filled, RE Advisers has adopted procedures to provide that the securities are to be allocated in a manner deemed fair and equitable to clients.

Initial public offerings ("IPOs") or new issues are offerings of securities that frequently are of limited size and limited availability. These offerings may trade at a premium above the initial offering price. If RE Advisers participates in an IPO, new issue shares are fairly and equitably allocated among clients according to a specific and consistent basis so as not to advantage any firm, personal or related account and so as not to favor or disfavor any client, or group of clients, over any other. RE Advisers strives to distribute the shares proportionately among each client account that will hold the security. However, if the amount of shares that can be purchased is small, it may not be advantageous to separate the trade proportionately into even smaller amounts for allocation. In this case, RE Advisers would keep track of each purchase allocation to ensure each subsequent trade is proportionately distributed among the clients in a reasonable manner.

---

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

The portfolio managers have responsibility for reviewing the equity investments, fixed-income investments and money market investments. The portfolio managers are supervised by the President of RE Advisers.

Private advisory client account reviews are conducted on an ongoing basis and focus on the continued appropriateness of each security in a given client's portfolio and the mix of investments in view of the client's stated investment objectives, programs, policies and restrictions. On a quarterly basis, RE Advisers reviews each client's portfolio for compliance with the client's stated investment objectives, policies and restrictions. Furthermore, RE Advisers reviews the account portfolio with each private advisory client as requested and provides each client a quarterly update.

Reviews of the Homestead Funds accounts are conducted on an ongoing basis and focus on the continued appropriateness of each security in a given Fund portfolio and the mix of investments in view of the Fund's stated investment objectives, policies and restrictions. At least quarterly, Homestead Funds' Board of Directors receives reports on the investments for the Funds. On a monthly basis, RE Advisers reviews the Homestead Funds' investments regarding (i) compliance with each Fund's investment objectives, policies and restrictions, and (ii) compliance with conditions for qualification of each Fund as a regulated investment company under the Internal Revenue Code of 1986, as amended.



Significant market events affecting the prices of one or more securities in client accounts or changes in the investment objectives or guidelines of a particular client or specific arrangements with particular clients may trigger reviews of client accounts on other than a periodic basis.

---

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

This item is not applicable.

---

**Item 15. Custody**

This item is not applicable.

---

**Item 16. Investment Discretion**

RE Advisers provides investment advisory services on a discretionary basis to clients. Please see Item 4 - Advisory Business for a description of any limitations clients may place on RE Advisers' discretionary authority. Prior to assuming full/limited discretion in managing a client's assets, RE Advisers enters into an investment management agreement or other agreement that sets forth the scope of RE Advisers' discretion.

Unless otherwise instructed or directed by a discretionary client, RE Advisers has the authority to determine (i) the securities to be purchased and sold for the client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines) and (ii) the amount of securities to be purchased or sold for the client account. Because of the differences in client investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among clients in invested positions and securities held.

RE Advisers' portfolio managers submit an allocation statement to RE Advisers' trading desk describing the allocation of securities to (or from) client accounts for each trade/order submitted. See Item 12 – Brokerage Practices - Trade Aggregation, for additional information.

Allocations will be made among client accounts eligible to participate in IPOs and secondary offerings on a pro rata basis, except when RE Advisers determines in its discretion that a pro rata allocation is not appropriate, which may include the limited size of the offering or possible client investment guidelines and/or restrictions. If the shares are not allocated on a pro rata basis, RE Advisers will keep track of each purchase allocation to ensure each subsequent trade is proportionately distributed among the clients in a reasonable manner. See Item 12 – Brokerage Practices - Trade Aggregation, for additional information.

If it appears that a trade error has occurred, RE Advisers will review the relevant facts and circumstances to determine an appropriate course of action. To the extent that trade errors and breaches of investment guidelines and restrictions occur, RE Advisers' error correction

procedure is designed to ensure that clients are treated fairly and, following error correction, are in the same position they would have been if the error had not occurred. RE Advisers has discretion to resolve a particular error in any appropriate manner that is consistent with the above stated policy. In the event that a client account incurs a trade error as a result of RE Advisers' gross negligence, willful misconduct, or fraud, trade errors will be corrected by RE Advisers as soon as practicable, in a manner such that the client incurs no loss.

---

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

To the extent RE Advisers has been delegated proxy voting authority on behalf of its clients, RE Advisers complies with its proxy voting policies and procedures that are designed to ensure that in cases where RE Advisers votes proxies with respect to client securities that these securities are voted in the best interests of its clients.

To assist RE Advisers in carrying out its proxy voting functions, the firm has engaged Institutional Shareholder Services Inc. ("ISS"), which provides proxy research, advisory, voting, recordkeeping and vote-reporting services. ISS receives all proxy materials for securities held in client accounts and forwards the relevant proxy materials, research and recommendations on proxy issues to RE Advisers. However, RE Advisers votes client proxies pursuant to its own proxy voting guidelines contained in its policies and procedures, which are independent from ISS' recommendations. RE Advisers bears ultimate responsibility for proxy voting decisions.

RE Advisers recognizes that under certain circumstances it may have a material conflict of interest in voting proxies on behalf of its clients. For example, it may have a conflict if RE Advisers, its personnel or its affiliates have a business or personal relationship with the proponent of a proposal or with participants in proxy contests, corporate directors or director candidates. RE Advisers has established policies to ensure that proxy votes are voted in its clients' best interest and not affected by the possible conflicts of interest. First, except in certain circumstances, RE Advisers votes in accordance with its pre-determined guidelines. Second, RE Advisers may consider the recommendations of ISS. Third, in the event of a material conflict of interest, RE Advisers will vote the proxy in accordance with the instructions of the clients, seek the recommendation of an independent third party such as ISS or resolve the conflict in such other manner as RE Advisers believes is appropriate.

Information about how RE Advisers voted proxies for securities in an client's account and a copy of the procedures and guidelines governing proxy voting are available by calling the CCO at (703) 907-5993 or email at [danielle.sieverling@nreca.coop](mailto:danielle.sieverling@nreca.coop).

---

## **Item 18. Financial Information**

This item is not applicable.