



AR SCHMEIDLER & CO

## A.R. Schmeidler & Co., Inc.

Form ADV Part 2A

Firm Brochure

February 20, 2015

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This Brochure provides information about the qualifications and business practices of A.R. Schmeidler & Co., Inc. If you have any questions about the contents of this brochure, please contact us at (212) 687-9800 or email us through our website at [info@arschmeidler.com](mailto:info@arschmeidler.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 A.R. Schmeidler & Co., Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Being a "registered investment adviser" or describing ourselves as being "registered" does not imply a certain level of skill or training.

## Item 2: Material Changes

This Firm Brochure, dated February 20, 2015, provides you with a summary of A.R. Schmeidler & Co., Inc.'s ("ARS") advisory services and fees, certain business practices and policies, as well as actual or potential conflicts of interest, among other things. This Item 2 provides our clients with a summary of new and/or updated material information since the last update of the Brochure dated March 24, 2014; we will inform of the revision(s) based on the nature of the information as follows:

1. Annual Update: We are required to update certain information at least annually, within 90 days of our firm's fiscal year end (FYE) of December 31<sup>st</sup>. We will provide you with either a summary of the revised information with an offer to deliver the full revised Brochure within 120 days of our FYE or we will provide you with our revised Brochure that will include a summary of those changes in this Item.
2. Material Changes: Should a material change in our operations occur, depending on its nature we will promptly communicate this change to clients (and it will be summarized in the Item). "Material changes" requiring prompt notification will include changes of ownership or control; location; disciplinary proceedings; significant changes to our advisory services or advisory affiliates – any information that is critical to a client's full understanding of who we are, how to find us, and how we do business.

**This update is an other than annual update.**

**On January 22, 2015 Hudson Valley Bank sold A. R. Schmeidler to Artemis US IV LLC. Artemis US IV LLC is an affiliate of Artemis Investment Management headquartered in Toronto, Ontario.**

The foregoing is only a summary of the material changes to the Brochure. It does not purport to identify every change to the Brochure since the last annual update (eg., format changes). This summary of material changes is qualified in its entirety by reference to the full discussion in this Brochure. Clients are encouraged to read the Brochure in detail and contact their account representative with any questions. The Brochure can be accessed via the SEC Website at [www.sec.org](http://www.sec.org), or on the ARS Website at [www.arschmeidler.com](http://www.arschmeidler.com).

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## Item 4: Advisory Business

### 4.A: Firm Description and Principal Owners

A. R. Schmeidler & Co., Inc. (“ARS” the “Firm” or the “Adviser”) is an SEC registered investment advisor founded in 1971 by Arnold Schmeidler under New York State Law. The firm is wholly owned by Artemis U.S. IV LLC, an affiliate of Artemis Investment Management Limited, an SEC registered investment advisory firm and Artemis Investment Management Corporation both headquartered in Toronto, Ontario, Canada.

### 4.B: Types of Advisory Services

The Firm provides discretionary and non-discretionary investment advisory services as:

1. Adviser to separately managed accounts, according to client investment objectives as specified in the pertinent investment management agreements;
2. Sub-adviser to accounts managed and sponsored by several institutional platforms, within a wrap program or UMA program.

The Adviser also provides administrative services in addition to serving as investment manager. These administrative services include:

1. Administrative matters relating to the operations of the accounts, including any necessary coordination among sub-managers, the clearing firm, the custodian, the transfer agent, the dividend disbursing agent, record-keepers, accountants, counsel and any other pertinent party necessary to service or operate the accounts; and
2. Performing compliance testing and oversight functions necessary to ensure compliance with federal securities laws and other applicable laws.

### 4.C: How Services are Tailored to Fit Client Needs

The investments are tailored to each individual investor’s needs utilizing equity, balanced or fixed income investment strategies. Clients may impose restrictions on investing in certain securities or types of securities.

### 4.D: Wrap Fee Programs

The Adviser does not sponsor Wrap Fee Programs.

### 4.E: Management of Client Assets

As of December 31, 2013, the Firm had approximately \$1.25 billion in assets under management, including approximately \$1.18 billion of discretionary assets under management, and \$72.51 million in non-discretionary assets under management. In addition, we also maintain assets under advisement of \$120.44 million.

## Item 5: Fees and Compensation

### 5.A: Description

The Adviser is compensated for its investment advisory services based on a percentage of assets under management. In certain circumstances, fees may be subject to negotiation.

#### Fee Schedule

The Firm’s advisory fee schedule for new clients is based on the amount of assets under management and generally is payable quarterly in advance. The fee schedule is as follows:

#### Equity and Balanced Accounts

1.25% per annum of the first \$1 million  
1.00% per annum of the next \$20 million  
Negotiable thereafter

#### Fixed Income Accounts

0.50% per annum of the first \$15 million  
0.35% per annum of the next \$15 million  
Negotiable thereafter

#### ARS Multicap Equity Accounts – For Institutional use only

0.80% per annum of the first \$25 million  
0.70% per annum of the next \$25 million  
Negotiable thereafter

This fee schedule applies to new clients that have not been introduced to the Firm with an older fee schedule. Therefore, management fees for certain clients may differ from above, due to older clients’ fees having been grandfathered or because of relationships with ARS, HVB, or other account differences.

ARS acts as sub-advisor on several institutional platforms. Fees charged to these clients vary by platform. When a client utilizes ARS’s services indirectly through another custodian’s platform, a wrap account or a UMA program, the platform establishes the fees that are charged to the client. ARS will receive a portion of these fees as sub-advisor.

## 5.B: Fee Billing

The specific manner in which fees are charged by ARS is established in a client's written agreement with ARS. ARS will generally bill its investment advisory fees in advance on a calendar-quarter basis. Investment advisory fees that are billed in advance are prorated for each capital contribution and withdrawal made during the applicable quarter with the exception of de minimus contributions and withdrawals. Clients may request to be, and in certain cases are, billed in arrears. Clients may also elect to be billed directly for fees, or to authorize ARS to directly debit fees from their accounts. Accounts initiated or terminated during a calendar quarter will be charged or refunded a prorated fee (see Item 5.D – Termination of Advisory Agreements).

## 5.C: Other Fees

ARS's investment advisory fees are exclusive of brokerage commissions, transactions fees, and other related costs and expenses, which shall be incurred by the client. Clients may incur certain charges imposed by the custodians, brokers, third party investment firms and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic funds fees, and other fees and taxes on brokerage accounts and securities transactions.

Mutual funds and exchange-traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to ARS's investment advisory fees. Please refer to the Fund's prospectus for details regarding fee structure.

In its capacity as a registered broker-dealer, ARS receives commissions on accounts that ARS introduces to Pershing, LLC, the Firm's clearing broker. The receipt of this brokerage compensation creates a potential conflict of interest that may give ARS an incentive to recommend securities transactions based on the compensation received. Clients have the option to select other broker-dealers or financial institutions that are not affiliated with the Firm. ARS does not offset or reduce its investment advisory fees by the amount of brokerage compensation it receives. Accordingly, clients should consider the brokerage compensation that ARS earns when evaluating the amount and appropriateness of the total value of services that ARS provides.

Please see Item 12 for more detailed discussion of the conflicts of interest associate with the Firm's brokerage compensation.

## 5.D: Advance Payments, Past Due Accounts and Termination of Agreement; Refund

### Termination of Advisory Agreements

The client may terminate their advisory contract at any time, for any reason or no reason at all upon written notice. Upon the effective date of termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable; terms of which are outlined in the client's investment management agreement.

The Firm may terminate the agreement without payment of penalty or compensatory damages by providing 30 days prior written notice to the other party, or immediately in the event that there are changes to a client's instructions, information, or circumstance that, in the Firm's judgment, are inconsistent with the Firm's investment management philosophy and policies. The Firm may also immediately terminate an advisory contract in the event that the assets of a client fall below the Firm's minimum asset level.

Terminating the respective agreement will not affect any outstanding orders or transactions or any legal rights or obligations that have already arisen. Transactions in progress at the date of termination will be completed by ARS as soon as practicable.

### Withdrawal of Funds

A client may withdraw its assets and stop using the Firm's services at any time without penalty.

## 5.E: Compensation for Sale of Securities or Other Investment Products

ARS does not receive any other compensation for the sale of securities or other investment products.

## Item 6: Performance-Based Fees

ARS does not charge or receive performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of the client).

## Item 7: Types of Clients

### 7.A: Description

The Firm provides investment advice to:

1. Individuals;
2. High Net-Worth Individuals;
3. Taft-Hartley Plans;
4. Pension and Profit Sharing Plans
5. Trusts, Estates and Endowments;
6. Foundations and Charitable Institutions;
7. Family Offices
8. Other U.S. and International Institutions.

### 7.B: Account Minimums

The Adviser's investment minimum for opening a discretionary advisory account is typically \$1.0 million, subject to anti-money laundering due diligence review. The Adviser may accept accounts with less than the minimum amount, at their discretion, depending on the nature of the account, the potential for future additions to the account and other factors.

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

### 8.A: Methods of Analysis and Investment Strategies

Investing in securities involves risk of loss that clients should understand and be prepared to bear. ARS's investment process is as follows: The portfolio managers, including the President and Chairman, form the investment policy committee. This group conducts all company research, which results in the Firm's buy list. In addition, the team develops a view of the operating environment for companies including determining the positive and negative forces impacting the flow of capital worldwide.

The investment professionals generally meet daily to review the portfolios, discuss positions and weightings, assess the market environment, and reassess the investment thesis for portfolio holdings. In addition, the team holds an investment policy meeting periodically to review portfolio weightings, conduct risk assessments and provide research updates.

ARS screens a narrow list of companies on three levels: value screens, growth screens and soft screens. Valuation screens include: P/E, Price/Cash Flow, Price/Sales, market value/asset value, and market value/reserve value. The growth screens target the earnings growth rate, cash flow growth rate, free cash flow growth rate and product cycles. The soft screens identify factors such as institutional ownership, relative value to peers, insider ownership, relative value to the S&P 500, analyst coverage, relative historic valuation and dividend yield. The ability of company management to execute is a critical factor in the investment selection process. Companies are evaluated on an enterprise value basis as if ARS were purchasing the entire company.

ARS draws its investment ideas from three areas: individual company research, global catalysts and industry dynamics. The fundamental research process provides ARS with an assessment of the enterprise value (current and future) and the growth prospects for the business. The global catalysts and industry dynamics provide the framework that forms or reinforces the view of the growth prospects. This view is then translated into a level of conviction with regard to company and industry weightings.

The types of securities that ARS offers advice on include:

- Equity and Fixed Income Securities including exchange-listed securities, securities traded over-the-counter and U.S.-listed Depositary Receipts of foreign issuers;
- Corporate and Municipal Debt;
- Certificates of Deposit;
- U.S. Government Securities;
- Mutual Fund and Exchange-Traded Fund shares;
- Warrants and certain Rights; and
- Options contracts on securities.

### 8.B: Material Risks for Each Significant Method of Analysis and Investment Strategy

The material risks for the Adviser's significant methods of analysis and investment strategy lie in the particular risks of the securities in which the Adviser's clients invest as generally described below in Item 8.C. The Adviser cannot guarantee that it will achieve the investment objectives of the portfolios it manages or sub-manages. There are certain risks of investing, and investors could lose money.



## 8.C: Material Risks Involved in Particular Types of Securities

The Adviser invests in multiple types of securities to achieve the investment objectives of the portfolios it manages and sub-manages. The Adviser cannot guarantee or assure you that your investment objective(s) will be achieved. The Adviser does not guarantee the future performance of any client's account or any specific level of performance, the success of any investment decision or strategy that it may use, or the success of its overall management of any account. The investment decisions the Adviser make for client accounts are subject to various market, currency, economic, political and business risks, and the risk that investment decisions will not always be profitable. Below is list of risks that are involved with investing in certain types of securities:

**Credit Risk** — The issuer of a fixed income security, or the counterparty to a contract, such as swaps or other derivatives, may become unable or unwilling to meet its financial obligations. Various market participants, such as rating agencies or pricing services, also may affect the security by downgrading the credit of the issuer of the security, which may decrease the value.

**Depository Receipts Risk** — There may be less material information available regarding issuers of unsponsored depository receipts and, therefore, there may not be a correlation between such information and the market value of the depository receipts. Depository receipts are generally subject to the same risks as foreign securities.

**Equity Securities Risk; Stock Market Volatility** — Equity securities include common and preferred stocks. Stock markets are volatile. The value of equity securities is affected by changes in a company's financial condition and overall market and economic conditions. Preferred stock may be subject to optional or mandatory redemption provisions.

**Fixed Income; Interest Rate Risk** — The value of fixed income securities is generally affected by changes in interest rates. The value of the securities will generally decrease when the interest rates increase, and the value of the securities will generally increase when the interest rates decrease. Fixed income securities with longer maturities tend to be more sensitive to changes in interest rates. The changes in interest rates also affect extension or prepayment risk. In addition, fixed income securities are subject to risk of loss due to negative credit events related to an issuer's or guarantor's default on its obligation to pay interest and repay principal.

**Inflation Risk** — Inflation risk is the risk that the present value of assets or income from investments will be less in the future as inflation decreases the value of money. The present value of assets can decline as inflation increases.

**Management Risk** — There is a risk that ARS's investment strategy may not produce the intended results. The investment performance and the success of any investment strategy or particular investment cannot be predicted or guaranteed, and the value of a client's investments will fluctuate due to market conditions and other factors. The investment decisions made and the actions taken for investment advisory accounts are subject to various market, liquidity, currency, economic and political risks, and will not necessarily be profitable. Past performance is not indicative of future results.

**Market Risk** — The market value of fixed income securities could fluctuate unpredictably or rapidly due to various factors that could affect a few issuers, specific industries, or the entire general securities market.

**Non-U.S. Securities Risk** — Non-U.S. investments may be subject to different, and in some cases, less stringent regulatory and disclosure standards than U.S. investments. Also, political concerns, fluctuations in foreign currencies and differences in taxation, trading, settlement, custodial and other operational practices may result in foreign investments being more volatile and less liquid than U.S. investments. Brokerage and transaction costs are generally higher for foreign securities than for U.S. investments.

**Selection Risk** — The securities selected may underperform the market or other securities.

**Small- and Mid-Cap Securities Risk** — Securities of small- and mid-sized companies may be more volatile and subject to greater risk than securities of larger companies. Small- and mid-cap companies may have limited financial resources, product lines and markets, and their securities may trade less frequently and in more limited volumes than the securities of larger companies, which could lead to higher transaction costs.

## Item 9: Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of ARS or the integrity of ARS's management.

In 2008, ARS was fined \$15,000 because it failed to report on a timely basis and/or failed to report the correct time of trade, and failed to supervise the reporting of certain bond transactions pursuant to the Trade Reporting and Compliance Engine ("TRACE") corporate bond reporting rules as promulgated by FINRA. Subsequent to FINRA's findings, ARS revised its policies and procedures to address the TRACE reporting deficiencies.



In 2010, ARS was fined \$11,000 because it failed to report the correct Firm identifier in the Order Audit Trail System (“OATS”); identify the person responsible for OATS reporting; and, the frequency, maintenance and documentation of the OATS reporting. In response, ARS revised its policies and procedures to address the OATS reporting deficiencies.

On July 31, 2013, ARS consented to the entry of an Order Instituting Administrative and Cease-And-Desist Proceedings (“Order”) by the U.S. Securities and Exchange Commission (the “SEC”). In the Order, the SEC found that ARS renegotiated an agreement with its clearing firm in February 2007, which increased ARS’s share of commissions generated by certain taxable client accounts, without altering the allocation of responsibilities between ARS and the clearing firm. Although all clients continued to pay the same commission rate during the relevant period, the SEC concluded that ARS failed to conduct sufficient analysis to determine whether it properly sought best execution for trades executed on behalf of taxable accounts and failed to implement its best execution policies and procedures. Without admitting or denying the SEC’s findings, ARS agreed to a censure, to cease and desist from future violations of Sections 206(2) and 206(4) of the Advisers Act and Rule 206(4)-7 thereunder, to pay a civil monetary penalty of \$175,000, to pay disgorgement of \$757,876.88 and pre-judgment interest of \$78,688.57 and to retain a qualified independent consultant.

## Item 10: Other Financial Industry Activities and Affiliations

### 10.A: Broker-Dealer Registration

ARS is a registered broker-dealer, registered with FINRA. Personnel are appropriately registered pursuant to FINRA’s requirements.

### 10.B: Other Registrations

ARS is not currently seeking registration as a futures commission merchant, commodity pool operator or commodity trading advisor.

### 10.C: Other Material Relationships or Affiliations

ARS has entered into an agreement with its parent company, HVB, pursuant to which ARS provides HVB with investment advisory services in connection with certain trust accounts, for which HVB serves as Trustee.

### 10.D: Referral Practices

ARS has entered into a referral arrangement with its parent company, HVB, further described in Item 14.

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

### 11.A: Code of Ethics

The Adviser has adopted a Code of Ethics pursuant to Rule 204A-1 of the Investment Advisers Act of 1940, as amended (the “Advisers Act”) which sets forth standards of ethical and business conduct expected of its personnel and addresses conflicts that may arise from personal trading by its personnel. The Adviser’s Code of Ethics, among other things, requires compliance with the U.S. federal securities laws, reflects the Adviser’s fiduciary responsibilities and those of its Advisory personnel, prohibits certain personal securities transactions, requires the Adviser’s personnel to periodically report their personal securities transactions and to obtain pre-approval for certain securities transactions and addresses prevention of the misuse of material non-public information. All Adviser personnel receive Code of Ethics training and are required to acknowledge the terms of the Code of Ethics on an annual basis, or as amended. The Code of Ethics will be provided upon request.

### 11.B: Participation or Interest in Client Transactions

In certain instances the activities or strategies used by the Adviser for one client could conflict with the activities and strategies employed in managing the assets of another client and therefore result in limited investment opportunities and/or higher priced securities. The Adviser will seek to resolve such conflicts of interest in a fair and equitable manner in accordance with its Code of Ethics (as described above in Item 11.A) and Order Aggregation and Best Execution policy (discussed below in Item 12.B). Conflict resolution may result in a client receiving more or less consideration than it may have otherwise received in the absence of such a conflict of interest.

The Adviser will not affect any principal or agency cross securities transactions for client accounts, or between client accounts. The Adviser may trade and invest for its retirement account and employee personal accounts in securities and other financial instruments that are similar to or different from those in which its clients invest.

On a daily basis, all trades are reviewed from the day before and may require immediate action from the Investment Team in case of any irregularity. Any irregularity is reported to the Chief Executive Officer.

## 11.C & D: Personal Trading

Adviser personnel and its affiliates may buy and sell certain securities for their own accounts that the Adviser buys and sells for its clients so long as pre-clearance is obtained before executing any personal trade. The Adviser has established internal policies, including the adoption of a Code of Ethics (discussed above in Item 11.A), designed to ensure that Adviser Personnel do not unfairly benefit from personal trading at the expense of any of the Adviser's clients.

## Item 12: Brokerage Practices

### 12.A: Selecting Brokerage Firms

In selecting broker-dealers to effect transactions for all its accounts, the Adviser, subject to its written policies and overall duty to obtain "best execution" of transactions (described below in Item 12.B), has authority to consider the full range and quality of the services and products provided by various brokers.

The Adviser will take into account, in addition to many others, such relevant factors as:

- Price;
- Broker-dealer's facilities, reliability and financial responsibility;
- Ability of the broker-dealer to effect securities transactions, particularly with regard to such aspects as timing, order size and execution of orders;
- Research, brokerage and other services provided by such broker-dealer to the Adviser, and
- Ancillary services such as capital introduction.

The Adviser is not required to solicit competitive bids and will not have an obligation to seek the lowest available commission cost. Accordingly, the Adviser may cause a client to pay a broker-dealer that provides brokerage or research services (either directly or through third-party relationships) an amount of commission or transaction cost in excess of that which another broker-dealer would have charged, if the Adviser determines in good faith that such commission or transaction cost is reasonable in relation to the value of brokerage, research or other services provided. The Adviser may use an affiliated broker-dealer, subject to best execution.

The process of broker selection is segregated according to the market they act in and the type of broker (e.g., research or discount broker). Traders at the Adviser are in charge of managing the allocation of trades among brokers and the Compliance Department is responsible for monitoring the percentage of allocation. In case of any deviation, the Investment Team is required to justify the occurrence to the Compliance Department.

### 12.A.1: Research and Other Soft Dollar Benefits

The Adviser may select broker-dealers that furnish brokerage and research services that provide appropriate assistance in the investment decision-making process. As a result, the Adviser may pay for such brokerage services with "soft" or commission dollars. In addition, the Adviser will determine whether the amount of client commissions paid is reasonable in light of the value of products or services provided by the broker-dealer.

The types of brokerage and research services that the Adviser acquired in 2013 included research reports on companies, industries and securities; global economic and market research; access to broker-dealer analysts, corporate executives and industry experts; and attendance at trade industry seminars and broker-organized conferences.

The Adviser currently has no soft dollar arrangements.

### 12.A.2: Brokerage for Client Referrals

The Adviser does not receive client referrals from a broker-dealer or third party. The Adviser has no incentive to select or recommend a broker-dealer nor does the Adviser direct client transactions to a particular broker-dealer in return for client referrals.

### 12.A.3: Directed Brokerage

#### Compensation Arrangement with Pershing and Potential Conflicts of Interest

In addition to providing investment advisory services, ARS is also a registered broker-dealer. Clients with no current or prior relationship with a broker-dealer, or who do not express a preference for a specific broker-dealer may choose to direct brokerage to ARS, as broker-dealer, to execute trades for their investment advisory account. ARS utilizes Pershing LLC ("Pershing") for trade execution, which currently serves as ARS's clearing firm. Pershing is responsible for executing, clearing and settling such transactions. ARS may not always be able to obtain the most favorable execution for client transactions and clients may pay higher transaction costs or receive less favorable pricing as a result of their decision to direct brokerage to ARS for execution through Pershing.

Clients that direct trades through ARS or have otherwise established a brokerage relationship with ARS should understand that the majority of their trades will be executed by ARS through Pershing, in recognition of the value of the brokerage and other services that ARS provides, both directly and through its clearing agreement with Pershing. These services by ARS include, among others:

- The level of individualized services provided;

- Access to margin at low rates (0.5% below the Broker Call rate);
- Various account services, including online access to account information and facilitation of wires and money movement;
- Quality trade execution services, provided by Pershing;
- Clearance, settlement and custody services provided by Pershing; and
- Pershing's responsiveness and financial stability.

ARS, as introducing broker, generally executes trades through Pershing at \$.06 per share, subject to certain per trade minimums, not to exceed \$25. ARS currently retains 60% of the gross commissions generated, and Pershing retains the remaining 40% to compensate for its services under the clearing agreement with ARS. The commissions earned by ARS are in addition to the investment advisory fees that clients pay to ARS. Accordingly, clients should consider the brokerage compensation that ARS earns when evaluating the amount and appropriateness of the total value of services that ARS provides. In considering the overall compensation, clients should be aware that ARS's brokerage compensation is limited to the commissions on equity transactions. ARS does not charge mark-ups, mark-downs or commissions on fixed income transactions. ARS also does not receive indirect compensation in the form of:

- Cash balances maintained in advisory accounts;
- A percentage of the margin interest charged on debit balances;
- Mutual fund fees;
- Payment for order flow; or
- Other compensation that might otherwise be available to ARS as a broker-dealer.

Brokerage commissions may be negotiated based on the particular circumstances of each client, including the size of the relationship or account, the required service levels, or other factors.

### Wrap Fee Programs and Other Directed Brokerage Arrangements

ARS also acts as investment adviser for clients that participate in wrap or other separately managed account programs sponsored by other broker-dealers and financial institutions. Where ARS is retained as an investment manager under a wrap program, it does not serve as broker-dealer in connection with transactions in client accounts. Further, ARS does not negotiate

brokerage commissions for transactions executed by or through the sponsor of the program. These commissions are generally included in the wrap fee charged by the sponsor. In addition, there may be certain additional execution costs charged to the client, including but not limited to dealer spreads, dealer mark-ups or mark-downs, auction fees, exchange fees, other charges mandated by law, and certain other execution costs not listed here. For full disclosure of execution costs charged to a client in a wrap fee program, the client should contact the wrap fee program sponsor.

ARS typically places trades for wrap fee clients with the sponsor broker-dealer, since the wrap fee paid by each client covers execution costs executed through the sponsor or its affiliates. If ARS selects a broker-dealer other than the sponsor or its affiliates, the client would incur additional brokerage charges in addition to the wrap fee. Clients enrolled in wrap fee programs should determine whether the sponsor or its affiliates are able to provide best execution for its transactions.

### Other Client Directed Brokerage Arrangements

ARS also acts as investment adviser for clients that have accounts domiciled with other broker-dealers and banks. Instead of granting ARS the discretion to select broker-dealers, a client may direct ARS to use a particular broker-dealer to execute all transactions for their investment advisory account, under such terms and conditions negotiated with the particular broker-dealer. Any such direction must be provided to ARS in writing. Clients should understand that if they have directed ARS to use a particular broker-dealer, (i) ARS will not be responsible for negotiating commission rates or for selecting broker-dealers on the basis of best execution; (ii) transactions may not be aggregated (or "bunched" – see Item 12.B) for execution with orders of the same security for other accounts managed by ARS; and (iii) it may result in higher commission costs or less favorable net prices than might be the case if ARS were empowered to negotiate commission rates or to select broker-dealers on the basis of best execution.

## **12.B: Order Aggregation and Best Execution**

The Adviser may aggregate, or combine ("bunch"), sales and purchase orders of securities for orders being made simultaneously for more than one account managed by the Adviser.

The Adviser has a fiduciary obligation to use its best efforts to ensure that no client is treated unfairly in relation to any other client in the allocation of securities or investment opportunities or in the order in which transactions are

executed. The Adviser will seek to allocate orders and investment opportunities among clients in a manner that it believes is equitable and in the best interest of all of its clients. Although such allocations may be pro rata among participating clients, they will not necessarily be so where the Adviser's allocation policies (e.g., taking into account differing objectives or other considerations) dictate a different result. There can be no assurance that a particular order or investment opportunity will be allocated in a particular manner. The foregoing policy does not require that each opportunity be made available to all accounts, leaving significant discretion to the Adviser. For example, there may be accounts with different objectives, so that the same transaction would not necessarily be made available to all accounts.

Where ARS believes aggregation is appropriate and in the best interest of clients, orders for multiple accounts, including certain affiliated and insider accounts (i.e., accounts of employees or affiliates of ARS), may be aggregated when possible to facilitate best execution and/or to allocate equitably among such clients of any market fluctuations that might have occurred had such orders been placed independently.

Transactions may be averaged as to price, but commission charges will be determined based on the commission schedule in effect for each client. ARS will retain records of completed trade orders, specifying each participating account. Partially filled trade orders will generally be allocated on a pro rata basis. Any exceptions will be explained on the trade order.

In cases where ARS acts as investment adviser only, it may not be practicable to aggregate trades for multiple accounts held on different platforms. In these cases, ARS has implemented a trade rotation policy to determine which type of accounts are to be traded first. Platforms will be rotated when ARS is implementing buy or sell programs in a security. This trade rotation policy does not guarantee that any one of the platforms will receive a better execution than another, but rather the purpose is so that no one platform will be systematically advantaged or disadvantaged over time. Transactions for multiple accounts within a particular platform are aggregated. Accounts that trade later in the rotation may suffer adverse effects depending on market conditions.

In dealing on its clients behalf, where the Adviser has been given discretion to select broker-dealers to execute transactions for investment advisory accounts, the Adviser will at all times strive to obtain best execution of each trade. The Adviser will take reasonable care to obtain the best price available for its clients in the relevant market at the time, for transactions of the kind and volume concerned, taking into account all mark-ups, mark-downs, commissions, fees and charges payable to or receivable by the broker with whom the Adviser is executing the transaction. Transactions may not always be executed at the lowest available price or transaction cost.

## Item 13: Review of Accounts

### 13.A: Review Responsibilities and Periodic Reviews

The Adviser's portfolio manager for each account will be primarily responsible for ensuring that the portfolio holdings are consistent with the terms of the advisory agreements. In addition, the portfolio manager, together with the Adviser's Investment Team will review each account's portfolio holdings weekly to determine that the securities and other financial instruments held by each account remain consistent with the advisory agreements, and will generally review each account's performance on an ongoing basis.

### 13.B: Review of Client Accounts Other than on a Periodic Basis

Account reviews are conducted on a continuous basis by the Adviser. Although the final investment decisions are made by the portfolio managers, the investment process generally is organized as a team effort. The team structure is designed to provide checks and balances through internal research to facilitate the Adviser's ability to identify and respond quickly to meaningful market changes that affect existing and potential holdings.

### 13.C: Reports to Clients

The Adviser provides quarterly appraisals to the client, and, if requested, the Adviser will provide appraisals on a more frequent basis. In addition, client reviews are conducted on at least an annual basis, reporting to the client a discussion of the account statistics, which may include:

- List of Portfolio Holdings;
- Evaluation of management results;
- Details of management, including fees and taxes arising from transactions; and
- Details of valuation of the portfolio to the best ability of the Adviser.

## Item 14: Client Referrals and Other Compensation

### 14.A: Economic Benefits from Someone Who is Not a Client

Not applicable.

### 14.B: Compensation for Client Referrals

ARS may compensate its parent, HVB, based on a percentage of advisory fees paid by clients referred by the bank.



## Item 15: Custody

The Adviser does not take custody of client funds or securities. Clients should receive at least quarterly statements or appraisals from their broker-dealer, bank or other qualified custodian that holds and maintains client assets. ARS urges clients to carefully review such statements and compare such official custodial records to the quarterly account information provided by ARS. ARS's statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. Any material variance should be brought to the attention of both the custodian and ARS to determine a basis for the variance.

## Item 16: Investment Discretion

The Adviser generally has discretionary authority to determine, without obtaining specific account consent, the amount and type of securities to be bought or sold, the broker-dealer to be used, and the commission rates paid, according to the account's investment policies and objectives. Any limitations on authority are included in the pertinent advisory agreement.

## Item 17: Voting Client Securities

### 17.A: Proxy Voting Policy

The Adviser may have opportunities to vote the proxies of companies on behalf of its clients. In voting proxies, the Adviser is guided by general fiduciary principles. The Adviser's goal is to act prudently, solely in the best interests of its clients and consistent with efforts to achieve a client's stated objectives, including maximizing portfolio value. Where the Adviser has discretionary authority over the securities held by the client's account, it is therefore viewed as having proxy voting authority. The Adviser has a duty to cast votes in the best interest of clients and not subrogate client interests to its own interests. The Adviser is subject to Rule 206(4)-6 under the Advisers Act, which places specific requirements on registered investment advisers with proxy voting authority. To meet its obligations under the rule, the Adviser has adopted written proxy voting policies and procedures, which are designed to ensure that the Adviser votes proxies in the best interest of its clients and addresses how the Adviser will resolve any conflict of interest that may

arise when voting proxies. The general policy of the Adviser is to vote proxy proposals, amendments, consents or resolutions relating to client securities (collectively, "proxies"), in a prudent manner that serves the best interests of the clients, as determined by the Adviser in its discretion, and taking into account relevant factors, including, but not limited to:

- (1) the impact on the value of the securities;
- (2) the anticipated costs and benefits associated with the proposal;
- (3) the effect on liquidity; and
- (4) customary industry and business practices.

In addition, the Adviser follows procedures that are designed to identify conflicts or potential conflicts that could arise between its own interests and its client's interests. If it is determined that any such conflict or potential conflict is not material, the Adviser may vote proxies even with the existence of the conflict. If a conflict of interest or potential conflict of interest is material, appropriate Adviser personnel will endeavor to agree upon a method to resolve such conflict before voting proxies affected by the conflict.

### 17.B: No Authority to Vote Proxy

Where the Adviser does not have discretion of the account, the client is responsible for voting proxies, according to the proxy instructions.

## Item 18: Financial Information

ARS has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.