



# **FIRST REPUBLIC INVESTMENT MANAGEMENT**

**It's a privilege to serve you®**

## **FORM ADV Part 2A**

**First Republic Investment Management, Inc. ("FRIM")**

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**[http://www.firstrepublic.com/private\\_wealth\\_management/investment/index.html](http://www.firstrepublic.com/private_wealth_management/investment/index.html)**

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This brochure provides information about the qualification and business practices of First Republic Investment Management, Inc. ("FRIM") If you have any questions about the contents of this brochure, please contact FRIM's Chief Compliance Officer, Helene Jepson at (415) 296-5968. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about First Republic Investment Management, Inc. is also available on the SEC's website at [www.advisorinfo.sec.gov](http://www.advisorinfo.sec.gov).

First Republic Investment Management, Inc. is a federally registered Investment Adviser with the SEC. Registration of an Investment Adviser does not imply any level of skill or training.

## **Item 2 - Material Changes**

There were no material changes to the company since the last annual update.

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## **Item 4 - Advisory Business**

First Republic Investment Management, Inc. ("FRIM") is a wholly owned subsidiary of First Republic Bank (a publicly held California Bank).

First Republic Bank was first founded in 1985, went public in 1986 and was purchased by Merrill Lynch on September 21, 2007. In January 1, 2009, Bank of America bought Merrill Lynch.

On July 1<sup>st</sup> 2010, First Republic Bank announced that it had completed its management-led buyout from Bank of America by several private investors, including Colony Capital LLC and General Atlantic LLC and the bank's management.

In December 2010 (its 25th anniversary), First Republic Bank completed an initial public offering of its stock, which now trades on the NYSE (symbol FRC). Substantially all of the ownership of First Republic Bank is not public.

On December 28, 2012 First Republic Investment Management, Inc. acquired substantially all of the assets of Luminous Capital, LLC, a Century City (Los Angeles) based Registered Investment Adviser. Luminous Capital, LLC is in the process of winding up, and the former personnel of Luminous Capital now operates as a division of First Republic Investment Management, Inc. (although First Republic Investment Management, Inc. is not a successor entity of Luminous Capital, LLC).

First Republic Investment Management, Inc. registered as a Commodity Trading Advisor (CTA) with the Commodities Futures Trading Commission (CFTC) through the National Futures Association (NFA) (the self-regulatory organization for the CFTC). The CTA application was approved on January 14, 2013.

### **Investment Management Services**

FRIM provides personalized investment solutions for individuals, families, foundations, endowments and organizations. We understand that every client is unique, from their financial goals to their tolerance of market volatility. We focus on tailoring an investment program to meet the individual needs of our clients. Each client receives a customized investment policy statement, asset allocation strategy and is serviced by a dedicated team of investment professionals.

Our first and most critical step in working with clients is to develop a clear understanding of their goals, risk tolerance, family situation and income needs. Focus is placed on estate, tax, and financial planning considerations. Once we establish the appropriate asset allocation strategy, we will recommend a specific portfolio of investments based on considerable proprietary, fundamental in-house and independent research.

Our investment professionals have an average of at least 20 years of industry experience. We seek to build long-term, multi-generational relationships with our clients and their families. Perhaps most importantly, we realize that life does not remain static. Hence, we conduct regular portfolio reviews and track, assess, and rebalance portfolios as a client's life evolves.

### **Financial Planning Services**

FRIM's Financial Planning Group offers individually customized financial planning services. The objective of these services is to provide a high level strategic evaluation of the client's overall financial,

estate and investment plan. First, we typically consult with each client to obtain an in-depth understanding of the family's overall goals and objectives as they relate to the following, as applicable:

- Overall investment framework;
- Investment risk exposure and asset allocation objectives;
- Implementation of an investment plan;
- Liquidity requirements for personal needs;
- Succession planning for family-controlled businesses;
- Wealth transfer planning issues for family members; and
- Philanthropic goals.

The financial planning services generally involve a comprehensive review of the client's liquid and illiquid investment holdings, estate plan documents, income and gift tax returns, shareholder agreements for privately-held companies, limited liability companies and partnerships, generational planning structures and philanthropic entities, as applicable. The fees for these services are described further below.

### **Management of Collective Investment Vehicles**

FRIM is an Adviser to the following funds (collectively the "Private Funds"):

Altair Special Situations Fund, LLC  
Altair Special Situations Fund - A, LLC  
Altair Distressed Credit Opportunities Fund, LLC  
Altair Distressed Credit Opportunities Fund - A, LLC  
Altair Net Lease Income Fund, LLC  
Altair Net Lease Income Fund - A, LLC  
Altair Special Situations Fund II – A, LLC  
Altair Global Asset Allocation Fund, LLC  
Altair Global Credit Opportunities Fund (A), LLC  
Altair Global Credit Opportunities Fund (C), Ltd.  
Altair – Angelo Gordon MVP, LLC  
Altair – Rimrock, LLC  
Altair – FCO II, LLC  
Altair – US Farming Realty Fund, LLC  
Altair – Life Settlements Fund, LLC  
Altair DSO, LLC  
Altair Real Estate Opportunities Fund, LLC  
Altair Special Opportunities Fund, LLC  
Altair – GOF III, LLC  
Altair – FCO III, LLC  
Altair – Golub Capital VII, LLC  
Altair – Golub Capital VIII, LLC  
Altair – Pacific Coast Capital Partners Equity VI, LLC.  
Altair – Direct Lending Fund, LLC  
Altair – Diversified Portfolio, LLC  
Altair – Special Opportunities Fund II, LLC

Altair Multi-Family Opportunities Fund (JRK), LLC  
Altair Multi-Family Opportunities Fund II (ROC | Bridge), LLC  
Altair Multi-Family Opportunities Fund III (Wood 3), LLC  
Altair Special Opportunities Fund III (C5), LLC  
Altair – Marathon SOF, LLC  
Altair - PCOF, LLC  
Altair – SCP L/S Equity Fund, LLC  
Altair Multi-Family Opportunities Fund IV (Greystar), LLC  
Altair OH XIII, LLC  
Altair European Real Estate Opportunities Fund (MB), Ltd.  
Altair – TAO, LLC  
Altair Senior Housing Fund (AEW), LLC  
Altair Senior Housing Fund (ROC), LLC  
Altair Energy Fund, LLC  
Altair Real Estate Opportunities Fund II (AEW), LLC  
Altair Commercial Real Estate Lending Fund, LLC  
Stillwater Total Return Fund, LLC

PLEASE NOTE: Names were changed from Luminous Capital to Altair as a prefix for each fund, however, this name change is still pending in several states at this time.

If eligible, FRIM may recommend that certain clients invest in the Private Funds. All relevant information relative to the Private Funds, including the compensation received by FRIM or an affiliate, withdrawal rights, minimum investments, qualification requirements, suitability, risk factors and potential conflicts of interest, are set forth in the relevant confidential private offering memorandum, investor agreement, and Subscription Agreement (collectively the “Offering Documents”). Each investor is required to receive and/or execute the Offering Documents prior to being accepted as an investor in any of the Private Funds.

While each Private Fund is generally FRIM’s client (and not the individual investors), the term “client(s)” sometimes refers to the investors in the Private Funds.

FRIM will devote its best efforts with respect to its management of both the Private Funds and its individual client accounts. Given the above discussion relative to the objectives, suitability, risk factors, and qualifications for participation in the Private Funds, FRIM may give advice or take action with respect to the Private Funds that differs from that for individual client accounts. To the extent that a particular investment is suitable for both the Private Funds and certain individual client accounts, such investments will be allocated between the Private Funds and the individual client accounts pro rata based on the assets under management or in some other manner which FRIM determines is fair and equitable under the circumstances to all of its clients.

### **Sponsor and Manager of Wrap Program**

FRIM is the sponsor and manager of several wrap fee programs (the “Programs”). The services and management style provided in the Programs is identical to that provided through FRIM’s non-wrap service. In the Programs, however, FRIM provides its investment management services and arranges for brokerage transactions under a single annualized fee. For certain participants in the Programs, investment management fees charged by the designated Independent Manager(s) (as defined below) shall also be included in the single annualized fee. Participants in the Programs may pay a higher aggregate fee than if investment management and brokerage services are purchased separately. A complete description of the Programs’ terms and conditions (including fees) are contained in the Programs’ wrap fee brochure.

## **Assets under management as of 12/31/14**

Discretionary  
\$22,172,729,150

Non-discretionary  
\$13,126,780,657

Grand Total  
\$35,299,509,807

## **Item 5 - Fees and Compensation**

FRIM offers its services on a fee basis, which may include fixed fees, as well as fees based upon assets under management.

### **Financial Planning and Consulting Fees**

FRIM may charge a fixed fee for financial planning and consulting services. These fees are negotiable, but generally range from \$5,000 to \$50,000, depending upon the level and scope of the services and the professional rendering the financial planning and/or the consulting services. If the client engages FRIM for additional investment advisory services, FRIM may offset all or a portion of its fees for those services based upon the amount paid for the financial planning and/or consulting services.

Prior to engaging FRIM to provide financial planning and/or consulting services, the client is required to enter into a written agreement with FRIM setting forth the terms and conditions of the engagement. Generally, FRIM requires one-half of the financial planning / consulting fee payable upon entering the written agreement. The balance is generally due upon delivery of the financial plan or completion of the agreed upon services.

### **Investment Management Fee**

FRIM provides investment management services for an annual fee based upon a percentage of the market value of the assets being managed by FRIM. For services provided outside of the Programs, FRIM's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. FRIM does not, however, receive any portion of these commissions, fees, and costs. FRIM's annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by FRIM on the last day of the previous quarter. The annual fee varies (between 0.15% and 2.00%) depending upon the market value of the assets under management and the type of investment management services to be rendered.

FRIM, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, pro bono activities, etc.).

FRIM and its affiliates may retain any fees or compensation paid to FRIM or its affiliates for services provided with respect to any investment fund or investment vehicle in which the account invests. With respect to money market and other investment companies or pooled investment vehicles that pay management and service fees, and to the extent an account invests in such mutual funds and investment companies or other pooled vehicles, the client may, in effect, bear two levels of management fees

regarding that portion of an account - one charged at the fund level, and a second charged by the applicant at the account level. To the extent permitted by applicable law, FRIM and its affiliates may retain any fees or compensation paid to FRIM or its affiliates for services provided with respect to any investment fund or investment vehicle in which the client invests, which shall not offset or reduce the fees charged under the IMA. If the client account is subject to Title I of ERISA or Section 4975 of the Code, in the event account assets are invested in any investment vehicle in respect of which 12b-1 fees or any other fees or amounts are payable to FRIM (or any of its affiliates), the pro-rata share of such 12b-1 and other fees attributable to the account's investment shall be either (i) credited to the account or (ii) offset, dollar for dollar, against fees payable hereunder to FRIM from the account.

### **Fees Charged by Other Financial Institutions**

As further discussed in response to Item 12 (below), FRIM generally recommends that clients utilize the brokerage services of First Republic Securities Company, LLC ("FRSC") (FRSC is an affiliate of the registrant), Charles Schwab & Co., Inc. ("Schwab") or National Financial (a Fidelity Investments company) for investment management accounts.

FRIM may only implement its investment management recommendations after the client has arranged for and furnished FRIM with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, FRSC, Fidelity, Schwab, any other broker-dealer recommended by FRIM, any broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the "Financial Institutions").

Clients may incur certain charges imposed by the Financial Institutions and other third parties such as fees charged by Independent Managers (as defined below), custodial fees, charges imposed directly by a mutual fund or ETF in the account, which are disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, for assets outside of any wrap fee programs, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to FRIM's fee.

FRIM's Investment Management Agreement ("IMA") and the separate agreement with any Financial Institutions may authorize FRIM or Independent Managers to debit the client's account for the amount of FRIM's fee and/or the Independent Manager's fee to directly remit that management fee to FRIM or the Independent Managers, respectively. Any Financial Institutions recommended by FRIM have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to FRIM. Alternatively, clients may elect to have FRIM send an invoice for payment.

### **Fees for Management During Partial Quarters of Service**

For the initial period of investment management services, the fees are calculated on a pro rata basis.

The IMA between FRIM and the client will continue in effect until terminated by either party pursuant to the terms of the IMA. FRIM's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Clients may make additions to and withdrawals from their account at any time, subject to FRIM's right to terminate an account. Additions may be in cash or securities provided that FRIM reserves the right to liquidate any transferred securities or decline to manage particular securities transferred into a client's



account. FRIM may consult with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

Clients may withdraw account assets on notice to FRIM, subject to the usual and customary securities settlement procedures. However, FRIM designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives.

Fees paid by existing clients remain in effect unless a client is notified of any change in accordance with the terms of their IMA. Fees are based on the amount of assets managed and are normally paid quarterly in advance based on the current market value of the assets at the end of the preceding quarter, however, a number of clients are billed in arrears. Fees for certain existing clients may differ from the fees discussed herein based on the time they became clients. FRIM may agree to a different fee and minimum arrangement based upon certain circumstances such as the amount of assets under management, the nature of such assets, and the type of services provided and other factors. Related accounts may be combined in order to reduce the fee charged.

FRIM holds a limited power of attorney to act on a discretionary basis for client accounts, but does not maintain possession or custody of the funds or securities of any client. The client's funds and securities will typically be deposited in either a brokerage firm or bank custodian account.

Clients may terminate an IMA upon formal notice to FRIM. In the event a client terminates the relationship prior to quarter-end, he/she will receive a pro-rated refund, calculated in accordance with terms of the IMA.

## **California Code of Regulations**

Subsection (j) of Rule 260.238 of the California Code of Regulations requires that all investment advisors disclose to their advisory clients that lower fees for comparable services may be available from other sources. While this statement is provided for California residents, residents of other states should be aware that it may apply to them as well.

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

FRIM has previously, and may in the future, accepted "performance fees" – that is, fees based on a share of capital gains on or capital appreciation of the assets of a client's performance. Performance fees or other performance based compensation will be generally based on exceeding specified yield or total return benchmarks or "hurdles" or an appropriate index and generally are payable on a quarterly or annual basis. In some cases, these arrangements may be subject to a cumulative high water mark or other provisions intended to assure that prior losses are recouped before giving effect to any performance fees or allocations. Clients should be aware that performance-based fees give FRIM a financial incentive to achieve gains and to choose investments that are riskier or more speculative than might otherwise be chosen. FRIM is also an Adviser to various pooled investment vehicles, including various hedge funds of funds, in which the underlying sub-funds may collect "performance fees."

## **Item 7 - Types of Clients**

FRIM generally provides investment advice to: high net worth individuals, trusts (including estates or charitable organizations), pension and profit sharing plans, banks, corporations and other business entities.

FRIM subscribes to a \$7,500 annual fee minimum for its Separate Account Investment Management program in order to provide sufficient individual advisory services, and under certain circumstances, applicant may provide advisory services for less than the annual minimum. The annual fee generally varies (between 0.15% and 2.00%), but in no event will annual fees represent more than 3% of the assets under management. FRIM reserves the right to adjust or waive the minimum fee and to impose an initial set-up fee.

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

FRIM's security analysis methods include: charting, cyclical, fundamental technical and other analysis including, but not limited to the use of investment models, strategies and recommended portfolios licensed from third party asset managers. The main sources of information FRIM uses include: inspections of corporate activities, annual reports, prospectuses, filings with the SEC, research materials prepared by others, company press releases, corporate rating services and use of investment models, strategies and recommended portfolios licensed from third party asset managers.

FRIM, through one or more investment adviser representatives offering discretionary advisory services, uses affiliated and third party fundamental research to make investment decisions. FRIM also utilizes a third-party vendor that provides consulting, database, data processing and support services and software (including Asset Optimization modeling software) on a wholesale fee basis. FRIM uses these resources to provide advice to clients on asset allocation and selection of investment managers and investment funds for investment of the client's account (which may include investment managers that are affiliated or unaffiliated with FRIM and investment funds managed by companies that are affiliated or unaffiliated with FRIM), and periodic review, reporting and reallocation of the client's assets.

Investment managers recommended to clients shall have investment discretion over portions of a client's assets in their account. Except as specified below, FRIM shall have no authority to make investment decisions, including buying or selling securities for the client's account without prior consultation with, and consent of, the client. The client understands that if FRIM Adviser cannot obtain the consent of the client regarding a particular securities transaction, the client may forego the transaction. FRIM may, however, (i) make recommendations regarding investments for the client's account, including recommendations regarding Investment Management Consultants, Investment Managers, and Custodians, as specified in the client's Investment Policy Statement ("IPS") or other client communication; (ii) rebalance the client's account on a quarterly basis to conform to the percentages or amounts of the client's account managed by each investment manager or investment fund to the percentages or amounts previously approved by the client in the IPS or other written client communication (and the client has authorized FRIM to send instructions to the custodian and to the relevant investment managers and investment funds to move portions of the client's account assets among investment funds and investment managers to accomplish such rebalancing) and (iii) invest, reinvest, buy, sell, redeem or hold securities and other assets and contracts, with full discretion, for those portions of the client's account that are allocated to direct management by FRIM in the IPS.

The investment strategies used to implement any investment advice given to clients may include: long term purchases, short term purchases, trading (securities sold within 30 days), margin transactions, short sales, and option writing (including covered options, uncovered options or spreading strategies).

FRIM offers advice on the following types of investments: equity securities, exchange-listed securities, securities traded over-the-counter (including the pink sheets), foreign issues, warrants, corporate debt securities (other than commercial paper), commercial paper, certificates of deposit, municipal securities, United States government securities, options contracts on securities and interests in partnerships investing in real estate, oil and gas interests and commodities.

The disclosure in this Form ADV document is not intended as an offer or solicitation or as the basis for any contract to purchase or sell any security, or other instrument, or to enter into or arrange any type of transaction as a consequence of any information contained herein.

The results achieved by individual clients will vary and will depend on a number of factors, including prevailing dividend yields, market liquidity, interest rate levels, market volatilities and the client's expressed return and risk parameters at the time the service is initiated and during the term. Past performance is not a guarantee of future results.

FRIM usually recommends a diversified equity portfolio, as well as high quality bonds when appropriate, in an attempt to provide sound returns over the long term. FRIM strives to generate steady and attractive long-term returns through all natural economic and market cycles. Within this framework, FRIM builds customized investment strategies to suit each client's unique objectives through highly disciplined, diversified portfolios.

### **Use of Independent Managers**

FRIM may recommend the use of independent managers for certain clients. FRIM will continue to do ongoing due diligence of such managers, but such recommendations rely, to a great extent, on the independent managers' ability to successfully implement their investment strategies. In addition, FRIM does not have the ability to supervise the independent managers on a day-to-day basis.

### **Use of Third-Party Models, Strategies and Portfolio Recommendations**

FRIM may allocate a portion of a client account using an investment model, strategy or recommended portfolio obtained from a third-party. In this case, FRIM, rather than the third-party, makes final investment decisions and implements the investment model, strategy or recommended portfolio. FRIM may follow the third-party's model, strategy or recommendations exactly, or may depart to some degree from the model, strategy or recommendations. The third-party is not acting in this case as an independent manager and is not an investment adviser to the client, generally does not review or have access to client account information, and does not tailor the model, strategy or recommendations to the client's situation and needs, although FRIM may do so. Because the third party may use the model, strategy or recommendations to manage its own clients' accounts and its proprietary or investment fund assets, and may sell the model, strategy or recommendations for use by other investment managers with their own clients, the timing of portfolio purchase and sale transactions for FRIM's client accounts may occur after transactions have been placed for other investors whose accounts are managed using the third-party model, strategy or recommendations, and executions may occur through different brokers and dealers with different prices and transaction costs than those used by other investors whose accounts are managed using the third-party model, strategy or recommendations, resulting potentially in less favorable purchase and sale prices for FRIM's client accounts and different investment returns than those of other investors whose accounts are managed using the third-party model, strategy or recommendations.

**Use of Private Collective Investment Vehicles (Hedge Funds or Fund of Funds)**

FRIM may recommend the investment in privately placed collective investment vehicles (some of which may be typically called “hedge funds” or “fund of funds”) by certain clients. The managers of these vehicles will have broad discretion in selecting the investments. There are few limitations on the types of securities or other financial instruments which may be traded and no requirement to diversify. The hedge funds may trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the vehicle. In addition, because the vehicles are not registered as investment companies, there is an absence of regulation. There are numerous other risks in investing in these securities. The client will receive a private placement memorandum and/or other documents explaining such risks.

**Use of Margin**

To the extent that a client authorizes the use of margin, and margin is thereafter employed by FRIM in the management of the client’s investment portfolio, the market value of the client’s account and corresponding fee payable by the client to FRIM will be increased. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the potential conflict of interest whereby the client’s decision to employ margin shall correspondingly increase the management fee payable to FRIM. Thus, the decision as to whether to employ margin is left totally to the discretion of client.

While the use of margin borrowing can potentially improve returns, such use may also increase the risk of loss to the client’s portfolio. Borrowing of securities purchased on margin will usually be from broker - dealers and will typically be secured by the client’s securities and/or other assets. Under certain circumstances, a broker-dealer may demand an increase in the collateral that secures the client’s obligations and if the client were unable to provide additional collateral, the broker-dealer could sell assets held in the account to satisfy the client’s obligations to the broker-dealer. Liquidation in that manner could have extremely adverse consequences to the value of the portfolio. In addition, the amount of the client’s borrowings and the interest rates on those borrowings, which will fluctuate, will have a significant effect on the client’s profitability.

Securities are by definition speculative in nature and this strategy, over the short term, has a low margin of safety or a significant risk of the loss of principal. The investments in securities made by FRIM are not deposits or obligations of, or insured, guaranteed or endorsed by any bank, Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency, entity or person. The purchase of securities involves investment risks including the possible loss of principal.

**Item 9 - Disciplinary Information**

Neither FRIM nor any management person of FRIM has been involved in any criminal or civil action in a domestic, foreign or military court of competent jurisdiction.

Neither FRIM nor any management person of FRIM has been involved in any administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority.

Neither FRIM nor any management person of FRIM has been involved in any self-regulatory organization (SRO) proceeding.

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

A number of FRIM management persons and representatives are also registered representatives of FRIM's affiliated broker-dealer, FRSC.

As a registered securities broker-dealer, FRSC offers a variety of services, including taking customer orders, executing securities transactions and providing custody services. Customer brokerage accounts at FRSC are cleared on a fully-disclosed basis at Pershing LLC which has custody of the FRSC customer accounts. Pershing is a clearing broker that is not affiliated with FRSC or FRIM.

FRSC also has an insurance division, "Grand Eagle", which is primarily in the business of the sale of variable life insurance products. Prior to October 1, 2014, Wingspan, LLC was an insurance agency, jointly owned and controlled by two First Republic Bank employees who are "Access Persons" of FRIM. Wingspan was primarily in the business of the sale of term and whole life insurance products. FRIM Investment Adviser Representatives, Access People and FRSC Registered Representatives, in their capacity as licensed Life Insurance Agents, may receive compensation from Grand Eagle or Wingspan (prior to October 1, 2014) for the sale of insurance products.

If a client has a brokerage account at FRSC that is managed by FRIM, FRSC generally does not act as a principal or riskless principal in securities transactions that are conducted through the account when advised by FRIM. In riskless principal transactions, FRSC receives a customer order and, to fill that order, purchases a security in the market and simultaneously resells that same security to the customer at a slightly higher price (or if the customer is selling the security, FRSC purchases the security from the customer and simultaneously resells that security into the securities markets at a slightly higher price), with the spread between the purchase and resale price or "mark up" being compensation to FRSC in lieu of a commission for effecting the transaction for the customer.

Generally, customer accounts held through the adviser custody department of FRSC are managed on a discretionary basis either by FRIM or by another investment adviser that has separately contracted with the customer to provide investment management services to the customer. The asset-based brokerage fees charged by the adviser custody department of FRSC are separate from the investment management and other fees charged by the investment adviser retained by the customer to manage the customer's account. Both sets of fees are generally debited from the customer's account on a monthly or quarterly basis and reflected on the FRSC account statements sent to the customer.

It is also important to note that with respect to both commission-based accounts and asset-based fee accounts, FRSC may earn income from cash balances that are "swept" from such brokerage accounts into money market mutual funds or bank deposits. These fees are often paid by the mutual fund or First Republic Bank (which is the parent company of FRSC) to FRSC over time based upon a percentage of the amount of customer balances held at the mutual fund or First Republic Bank and the period for which they are held.

It is important to understand that the brokerage services FRSC provides to clients are separate and distinct from investment advisory services and each is governed by different laws.

If you have more than one account or sub-account with FRSC, those accounts or sub-accounts may be charged fees on different bases or schedules. In some cases, this may mean one account or part of an account that you have with us is subject to the Investment Advisers Act and the other is not. If an account or sub-account is not within the adviser custody department of FRSC and is not advised by FRIM, that account or particular transactions within the account may be charged commissions on brokerage

transactions or mark-ups on riskless principal or principal transactions effected by the affiliate broker-dealer. Generally, these transactions are not regulated under the Investment Advisers Act and FRSC is acting solely as a securities broker-dealer subject to the SEC, FINRA, MSRB and state regulatory requirements applicable to securities broker-dealers.

Please be aware that our employees who service your accounts may, in some transactions, act as a broker-dealer representative of FRSC, and in other transactions that same employee may be acting as an investment adviser representative of the adviser custody department of FRSC or of FRIM. Different regulatory requirements and compensation arrangements apply to the individual representative of FRSC and the transactions, depending on the capacity in which the individual and FRSC is acting.

It is also important to keep in mind that securities, mutual funds and other non-deposit investment products available through FRSC are not deposits or other obligations of First Republic Bank or any other bank, are not insured by the FDIC or guaranteed by any government agency, and are subject to investment risks, including the possible loss of principal amounts invested.

FRSC is a FINRA registered Broker-Dealer and is also a wholly owned subsidiary of First Republic Bank and an affiliate of FRIM.

FRIM may refer clients to the bank and sell bank products to investment clients. FRSC makes available several different options for holding uninvested cash in our customers' brokerage accounts ("sweep options"). Not all sweep options are available to all FRSC customers. The primary sweep option for those customers who qualify is the Eagle Sweep program. The Eagle Sweep Account is an FDIC-insured deposit account opened and maintained by FRSC's clearing agent, Pershing LLC, at FRSC's affiliated bank, First Republic Bank, the deposits of which are insured by the FDIC to the extent provided under the Federal Deposit Insurance Act and FDIC rules. The deposit account shall be entitled "Pershing LLC for the exclusive benefit of its customers."

Disclosure regarding Eagle Sweep can be found at:  
[http://www.firstrepublic.com/downloads/inv/brokerage/eagle\\_sweep\\_disclosure.pdf](http://www.firstrepublic.com/downloads/inv/brokerage/eagle_sweep_disclosure.pdf)

Consequently, the FRIM will have an incentive to allocate cash to the "Eagle Sweep" account at First Republic Bank through FRIM's affiliated broker-dealer, FRSC. Specifically, both entities are under common control and First Republic Bank will receive additional compensation for cash balances in your account. The asset based management fee charged to your account does include cash and cash equivalents, including cash allocated to the "Eagle Sweep" Account at First Republic Bank.

## **Margin buying of securities**

If you signed a margin agreement to allow a margin account to be opened, and if this is consistent with your investment objectives (as determined by FRIM or one of its representatives, in their sole discretion), the securities in your account may be pledged for collateral to borrow and buy more securities than could be purchased on a cash basis.

Margin buying is buying securities with cash borrowed from a broker-dealer (including an affiliate of FRIM), using other securities as collateral. This has the effect of magnifying any profit or loss made on your account. The securities serve as collateral for the loan, and this margin loan must be repaid even if the residual value of your account is insufficient to do so.

FRIM and its representatives will have an incentive to borrow money on your account and pledge the assets in your account as collateral as described above if doing so through FRIM's affiliated broker-dealer, FRSC. Specifically, both entities are under common control and your Portfolio Manager will receive additional compensation for indebteding you and your account.

FRSC receives 12(b)1 fees for the sale of certain open-ended investment companies (mutual funds). FRSC will receive such fees for certain mutual funds purchased by advisory clients of FRIM, as determined by FRIM or one of its representatives, in their sole discretion.

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

FRIM maintains a comprehensive Code of Ethics and Insider Trading Policy (the "Code") in accordance with Rule 204A-1 of the Investment Advisers Act, and other applicable laws and regulations, as well as industry best practice standards. The Code exists to ensure an ongoing commitment to the principle that client and fund shareholder interests are, at all times, paramount to the interests of any employee, officer, or director of FRIM.

Procedures established in the Code are intended to prevent and detect any conflicts of interest and prohibited activities in connection with personal trading or other activities on the part of FRIM's employees. All of the provisions of the Code apply to all of FRIM's employees. In addition, the Code's provisions apply to any account in which the employee has a beneficial interest or over which the employee exerts influence or control.

### **Principal elements of the Code of Ethics**

- Personal trade pre-clearance requirement for all employee trades, which expires after the close of business the same day, for all Access Persons, employees, officers and directors who, in the normal course of business, are likely to exercise investment control or be privy to decisions made on behalf of client interests ("Access Persons");
- Prohibitions on short selling, IPO participation, and short term profit taking (60 Day Holding requirement);
- Prohibition on some personal trades above \$20,000 or 5,000 shares (\$250,000 for S&P500 stocks, Top 20 ETFs and Top 50 ADRs) for all employees in which there is a pending order for any advisory account;
- 48 hour black out period for changes to FRIM's recommended list and 24 hour restriction on personal trades for Investment Personnel when transactions have been executed in the same securities for advisory accounts in which they exercise, or participate in the execution of, investment control;
- Pre-clearance on investments in private placement securities;
- Reporting requirements including: initial and quarterly holdings disclosure, initial and annual Code of Ethics certification, quarterly trading disclosure, initial and quarterly brokerage account disclosure (including provision of duplicate confirmations and statements if data is not obtained electronically via Sungard PTA), initial and quarterly Outside Business Affiliations Disclosure, initial and quarterly political contributions disclosure, initial and quarterly Conflict of Interest Policy certification, initial and quarterly Compliance 'Bad Actor' attestation. Reports are submitted via Sungard PTA.

A full copy of the aforementioned Code of Ethics is available upon request.

FRIM's Chief Compliance Officer is responsible for the implementation and administration of the Code. Responsibilities include, but are not limited to, pre-clearance of all personal trade requests, monitoring of firm activity in relation to employee activity and maintenance of records in accordance with applicable

laws and regulations. Any violation of the Code, including engaging in a prohibited transaction or failing to meet reporting requirements, may result in disciplinary action, including, but not limited to, disgorgement of profits, payment of fines, censure, and where appropriate, suspension or termination of employment. The Chief Compliance Officer is required to report to FRIM's Compliance Committee, and the Board of Directors of any fund to which applicant serves as advisor, any circumstance of fraud, deceit, or manipulative practice which could be found to have been practiced on a client of FRIM in connection with personal trading by employees and other material violations of the Code.

FRIM has also established an Investment Ethics Committee (the "Ethics Committee"), composed of senior Investment and Compliance personnel, with authority and oversight responsibility in regard to personal securities trading and the application of the Code. The Ethics Committee's mandate is to provide an additional mechanism for dealing with potential conflicts between personal and advisory account activity, and provide assistance and guidelines to the Compliance Officer with respect to interpretative issues that may arise under the Code.

With respect to securities of the parent company (stock in First Republic Bank (NYSE symbol FRC)), FRIM prohibits the purchase of this stock on a discretionary basis for clients of the Adviser (purchases can only be made for clients pursuant to written instruction and any account assets invested in FRC stock are not billed so as to act as a disincentive).

From time to time, FRIM may invest in securities on behalf of clients that are of the same type that FRIM's employees, officers or directors may also own, or buy or sell at the same time, subject to the small trade de minimis exceptions (as described above).

Where a portfolio manager's interests are aligned and that portfolio manager trades the same way alongside clients, that is buys or sells the same securities at the same time and at the same price as for FRIM's clients, and aggregates and average prices these purchases and sales, there is no de minimis (small trade) limitation.

As an affiliated broker-dealer, FRSC may enter into principal transactions with their brokerage clients, some of whom may be FRIM's clients. In general, FRSC would enter into principal transactions only in municipal securities. However, no principal trading will be done on the part of clients who have municipal assets managed by FRIM, and as a practice, FRIM does not direct any municipal securities trades to FRSC.

FRIM may effect agency cross-transactions (i.e. transactions for which FRIM or its affiliates act as broker for both the client and the other party to the transaction), but will not collect a commission or any other compensation (with the exception of a \$25 ticket charge) in connection with that trade, in accordance with the procedures described in Section 206(3) of the Investment Advisers Act of 1940, as amended, and any rules promulgated thereunder. Such trades will only be done on an exception basis, with prior written consent of both buyer and seller, where mutually beneficial to both parties. The client may revoke the authorization to affect agency cross-transactions at any time by written notice to FRIM. If any agency cross-trades are effected during the year, a list of all agency cross-trades will be provided at year end.

## **Item 12 - Brokerage Practices**

Generally, FRIM has discretionary authority to determine the securities to be bought or sold for clients, the amount of such securities, the broker-dealer to be used and the commission to be paid, subject to a client's established guidelines. FRIM will use its best efforts to obtain the best available price and most



favorable execution ("best execution") with respect to all portfolio transactions executed on behalf of its clients.

In selecting a brokerage firm and negotiating commission rates when placing a trade on behalf of a client account(s), FRIM considers the full range and quality of brokerage services available, in conjunction with a security's price, liquidity and order investment or brokerage discretion size. These include, but are not limited to:

- capable floor brokers or traders;
- competent block trading coverage;
- good communications;
- ability to position;
- financial condition;
- general research services;
- retail distribution and underwriting;
- use of automation;
- research relating to the particular transaction;
- arbitrage skills;
- administrative ability or provision of market information relating to the security.

FRIM will make periodic evaluations of the quality of brokerage services provided by firms selected. Brokerage services will be obtained only from those firms which meet FRIM's standards, are financially sound, and can be expected to supply such services reliably and continuously. In addition, FRIM may use Alternative Trading Systems or an Electronic Communications Network (ECN), i.e. Instinet, to facilitate best execution efforts.

Where possible, FRIM will aggregate orders of various clients in order to obtain a lower commission rate. Partial executions will be allocated to accounts, on a size basis, utilizing the following sequence: top down, bottom-up, middle to bottom, middle to top. In situations where aggregated trades are executed in multiple lots at varying prices, each participating client's proportionate share will reflect the average price paid or received with respect to the aggregate order.

FRIM routinely recommends that all clients utilize and execute all transactions through FRSC, an affiliate that is under common control with FRIM.

The client acknowledges in the standard IMA with FRIM that brokerage fees would be lower if a discount broker were used to execute securities transactions for the client's account. The client waives any right to best execution where the client agrees to utilize FRIM's inter-positioned affiliated broker-dealer FRSC.

## **Research and Soft Dollar Benefits**

FRIM has an incentive to select or recommend a broker-dealer based on FRIM's interest in receiving research or other products or services, rather than on your interest in receiving best execution.

FRIM may, in its sole discretion, cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying-up), in return for receiving research or other products or services that save FRIM money, rather than on the clients' interest in receiving best execution. Such higher commissions will be paid in accordance with Section 28(e) of the Securities Exchange Act of 1934, which requires FRIM to determine in good faith

that such transactions are reasonable in relation to the value of research and execution products/services provided.

FRIM may place all orders for transactions in any client account with a bank or broker-dealer selected by FRIM, including affiliated or unaffiliated banks or broker-dealers. Such banks or broker-dealers will act as the custodian on the accounts. In return for using certain banks or broker-dealers, FRIM may receive research-related and brokerage services in accordance with Section 28(e) of the Securities Exchange Act. Receipt of such research and brokerage services is an economic benefit to FRIM as it relieves FRIM from paying third parties for such services; however, FRIM may not, and is not required to, use research and brokerage services provided by FRIM's affiliates to benefit the particular client's account that paid for the research. Additionally, research and brokerage services may also be used to benefit the accounts of FRIM's other clients.

Research received by FRIM includes, but is not limited to, information on the US and other world economies, information on specific industries, groups of securities, individual companies, political and other relevant news developments affecting markets and specific securities, and technical and quantitative market information. Research is received via written reports, telephone contacts, email, facsimiles, personal meetings, research seminars and access to computer databases. In some instances, research products or services received by FRIM may also be used by FRIM for non-research related functions. In the event a product or a service has a mixed use, FRIM will make a reasonable allocation according to its use and will pay for the non-research portion in cash using its own funds. FRIM's clients should be aware that such an allocation determination presents a potential conflict of interest. FRIM currently does not have soft dollar arrangements for any mixed use arrangements.

The following is a list of broker-dealers and corresponding research services for which FRIM currently maintains a soft dollar arrangement:

**Broker / Dealer**

ISI  
Green Street  
Bank of New York  
Fidelity  
KLD Research  
DA Davidson  
Strategas  
Lowry  
AFG Research  
Rafferty Capital Markets  
Wellington  
Crandall, Pierce Co.  
Gimme Credit  
Moody's Ratings  
Municipal Market Advisors  
S&P Ratings  
Briefing.com  
Morningstar Equity Research  
Cornerstone Macro

**Service**

Macro Economic Research and Fund Equity Research  
Fundamental REIT Research  
Third Party Company Research  
Eligible Research and Brokerage Services  
Socially Responsible Equity Screening  
Fund Equity Research  
Macro Economic Research  
Technical Research  
Equity Research  
Fund Equity Research  
Fund Equity Research  
Asset Allocation, Macro and Market Research  
Fixed Income Research  
Fixed Income Research  
Fixed Income Research  
Fixed Income Research  
Fundamental Equity Research  
Fundamental Equity Research  
Macro Economic Research

Lombard Street  
Ned Davis  
Evestment Alliance  
Morningstar Direct  
Renaissance Macro Research

Macro Economic Research  
Macro Economic Research  
Mutual Fund and PE Research  
Mutual Fund Research  
Technical Macro Research

Where there is no "give up" charge for executing away from the custodian, client transactions are directed to particular broker-dealers (listed above) in return for soft dollar benefits received by the Adviser (eligible brokerage and research services) for the benefit of all clients.

## **Directed Brokerage**

FRIM does not generally use discount brokers, but acknowledges that brokerage fees may be lower if a discount broker were used to execute securities transactions for a client's account. As such, clients can direct FRIM to use a broker of their own choosing (the "directed broker"), including but not limited to discount brokers unaffiliated with FRIM. It shall be the duty of FRIM to act strictly in accordance with each such direction and, except as provided below, FRIM shall be under no duty to question any such direction by the client. If FRIM disagrees with any such direction by the client, or be aware of any reason why such direction is illegal or imprudent, it shall so advise the client. If the client determines not to rescind such direction, FRIM shall have no liability for any loss which may result from any action taken by it in accordance with such direction.

Due to the pre-arrangement between client and the directed broker, FRIM will not seek to negotiate commission rates for client directed accounts, and cannot guarantee best execution will be fulfilled. As such, the client may pay a higher commission rate and endure higher transaction costs than it otherwise would have if directed brokerage was not specified by the client. In addition, the client may not obtain the most favorable terms since FRIM may be unable to aggregate trades that are subject to a directed brokerage arrangement with trades directed by FRIM. However, to the extent possible, FRIM will aggregate trades that have been requested to be directed to the same brokerage firm in order to facilitate best execution. Note: FRIM may execute aggregated trades for non-directed clients through the same broker-dealer to which some clients have directed brokerage. Further, a direction by the client or by FRIM to use FRIM's affiliated bank or broker-dealer to effect transactions in the client's account may result in less advantageous execution, including greater spreads (the difference between the bid and the offer price) or less favorable net prices, than if an unaffiliated broker-dealer were to execute the transaction. Trades by FRIM's affiliated bank or broker-dealer may also be affected by or through FRIM's affiliates acting as agent or, to the extent permitted by law, as principal. Notwithstanding this direction, if none of FRIM's affiliates can effect a transaction on the client's behalf, FRIM may affect the transaction through a bank or broker-dealer unaffiliated with FRIM. Mark-ups or mark-downs that are not treated as commissions and that are payable to unaffiliated broker-dealers, in addition to fixed-income or over-the-counter transactions in which an affiliate of FRIM acts as agent, are not covered by FRIM's fees will be paid by the client rather than FRIM or any investment manager.

By directing FRIM to use a specific broker-dealer, clients subject to ERISA confirm and agree with FRIM that they have the authority to make such direction; that there are no provisions on any client or plan document which are not consistent with the direction; that the brokerage and other goods and services provided by the broker-dealer through the brokerage transactions are provided solely to and for the benefit of the client's plan, plan participants and their beneficiaries; that the amounts paid for the brokerage and other services have been determined by the client and the plan to be reasonable; that any expenses paid by the broker on behalf of the plan are expenses that the plan would otherwise be obliged

to pay; and that the specific broker-dealer is not a party in interest of the client or the plan as defined under applicable ERISA regulations.

## **Brokerage for Client Referrals**

In all cases where clients are referrals from a bank or broker-dealer, whether affiliated or unaffiliated, to the extent possible, all transaction are directed to the particular bank or broker-dealer that made the referrals (in return for client referral).

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

FRIM also recommends that certain clients utilize the brokerage and clearing services of Fidelity and Schwab.

Factors considered in recommending Fidelity, Schwab or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. Fidelity and Schwab enable FRIM to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by Fidelity and Schwab may be higher or lower than those charged by other broker-dealers. FRIM has determined that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer’s services and the fees for those services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. FRIM seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

FRIM periodically and systematically reviews its policies and procedures regarding its recommendation of broker-dealers in light of its duty to obtain best execution.

## **Software and Support Provided by Financial Institutions**

FRIM may receive from Fidelity and Schwab, without cost to FRIM, computer software and related systems support, which allows FRIM to better monitor client accounts maintained at Fidelity and Schwab. FRIM may receive the software and related support without cost because FRIM renders investment management services to clients that maintain assets at Fidelity and Schwab. The software and related systems support may benefit FRIM, but not its clients directly. In fulfilling its duties to its clients, FRIM endeavors at all times to put the interests of its clients first. Clients should be aware, however, that FRIM’s receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence FRIM’s choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

Additionally, FRIM may receive the following benefits from Fidelity and Schwab through their respective institutional divisions: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively service their institutional division participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the

appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

Moreover, FRIM has received monetary support from Fidelity towards the implementation of Advent APX portfolio management, accounting and client relationship management technology. In fulfilling its duties to its clients, FRIM at all times to put the interests of its clients first. Clients should be aware, however, that FRIM's receipt of additional compensation from Fidelity creates a potential conflict of interest since this benefit may influence FRIM's choice of broker-dealer over another broker-dealer that does not furnish similar benefits.

In addition, FRIM may also receive additional monetary support for technology needs from Schwab. Moreover, FRIM shall receive additional compensation from Schwab based on revenue from all net new assets (NNA) transferred to Schwab, subject to a minimum asset hurdle as well as date restrictions. FRIM's receipt of additional compensation from Schwab creates a conflict of interest since this benefit may influence FRIM's choice of broker-dealer over another broker-dealer that does not furnish similar benefits.

Certain companies that provide or sponsor products in which FRIM's advisory clients invest have contributed costs towards certain of the firm's employee and client events. In fulfilling its duties to its clients, FRIM endeavors at all times to put the interests of its clients first. Clients should be aware, however, that FRIM's receipt of compensation towards employee and client events from these providers or sponsors creates a potential conflict of interest since this benefit may influence FRIM's choice of products over others.

Neither FRIM nor any related person is an issuer of any securities purchased for clients on a discretionary basis, and neither FRIM nor any related person has a material financial interest in any security purchased for any client on a discretionary basis.

Neither FRIM nor any related person acts as general partner to a partnership in which clients are solicited to invest or offered to advisory clients, however, FRIM is an adviser to the Altair family of private pooled investment vehicles, and the conflict that this represents is described in the Private Placement Memorandum for each such fund.

### **Item 13 - Review of Accounts**

FRIM engages in an initial and ongoing review of each client's background, risk tolerance and investment objective(s) in relation to economic conditions and financial market behavior. FRIM's Portfolio Managers are responsible for the review of accounts, and as fiduciaries, maintain regular contact with each client. FRIM's supervisory structure requires that each Portfolio Manager select from within a universe of investment securities or funds that has been reviewed by FRIM's Investment Committee, and that all new accounts and new Portfolio Managers abide by these requirements within a reasonable time (usually 24 months) absent extenuating circumstances (such as a low cost basis and/or concentrated position).

FRIM may provide each client with a quarterly report containing a detailed analysis of investment holdings and a transaction summary, at the Portfolio Manager's sole discretion. FRIM intends for each Portfolio Manager to have periodic discussions regarding portfolio performance with his/her respective clients.

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

First Republic Bank (the “Bank”), the parent company of FRIM, refers clients of the Bank to the FRIM and vice versa. FRIM does not run sales contests, but encourages Bank referrals and offers recognition, awards and other prizes for bankers who refer the most business to FRIM.

Notwithstanding the foregoing, FRIM reserves the right to reject any referral in its sole discretion and will only offer investment advice where it can do so in a mutually beneficial manner with the client in accordance with its fiduciary duties under the Advisers Act.

### **Additional Compensation**

FRIM is party to referral arrangements with third party solicitors, constructed in accordance with Rule 206(4)-3 of the Advisers Act, whereby third party solicitors will refer potential clients to applicant in exchange for compensation based on a percentage of advisory fees collected.

FRIM may compensate several of its employees whereby the employee, upon bringing a new client to FRIM, receives a portion of the fees paid by a new client to FRIM.

FRIM has relationships with many brokers, some of whom may refer clients on occasion. If a client is referred to FRIM by a broker, and the client wishes to retain that broker, FRIM may direct some or all of that client's brokerage to the referring broker in a directed brokerage arrangement. Clients sometimes use brokers, including affiliates, as a custodian of their portfolios in order to avoid bank trust department custodian fees and/or to receive other services such as portfolio monitoring (see Items 12A&B for more disclosure on Directed Brokerage arrangements).

FRIM receives an economic benefit by having fees waived or by not being charged for utilizing specialized investment advisor electronic information downloads, access to specialized institutional brokerage trading and customer service teams, and specialized batched statements from Schwab and Fidelity. From these services, FRIM is then able to more efficiently and readily manage clients' accounts.

FRIM receives client referrals from Schwab through FRIM's participation in the Schwab Advisor Network (the “Service”). The Service is designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent of and unaffiliated with FRIM. Schwab does not supervise FRIM and has no responsibility for FRIM's management of clients' portfolios or FRIM's other advice or services. FRIM pays Schwab fees to receive client referrals through the Service. FRIM's participation in the Service may raise potential conflicts of interest described below. FRIM pays Schwab a Participation Fee on all referred client accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee paid by FRIM is a percentage of the value of the assets in the client's account. FRIM pays Schwab the Participation Fee for as long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to FRIM quarterly and may be increased, decreased or waived by Schwab from time to time. The Participation Fee is paid by FRIM and not by the client. FRIM has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs FRIM charges clients with similar portfolios who were not referred through the Service.

FRIM generally pays Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from, Schwab. This fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees FRIM generally would pay in a single

year. Thus, FRIM will have an incentive to recommend that client accounts be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of FRIM's clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, FRIM will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts at Schwab.

For accounts of FRIM's clients maintained in custody at Schwab, Schwab generally does not charge the client separately for custody but receives compensation from the client in the form of commissions or other transaction-related compensation on securities trades Schwab executes for the client's account. Clients also pay Schwab a fee for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealer's fees. Thus, FRIM may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. Nevertheless, FRIM acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for FRIM's other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

FRIM is a Separate Account Manager (SAM) for clients in the Charles Schwab MAC<sup>TM</sup> Program. Under this program, a client is referred to FRIM by a registered investment manager (IM) which acts as primary manager and is responsible for establishing investment objectives and guidelines for the client. FRIM, as sub-advisor, is responsible for investing client assets in accordance with the written investment policy statement. Annual fees paid to FRIM for Separate Account Management services are 50 basis points, based on the fair market value of the assets. These fees, as well as additional charges for the registered investment advisor and transaction based fees paid to Schwab are fully disclosed to the client by the investment manager. The minimum account size for this program is \$250,000.

From time to time, FRIM will arrange for clients to come to its offices to meet with portfolio managers and staff. The purpose of these visits is to familiarize clients with policies and procedures that affect the clients' portfolios. In some cases, costs for travel and lodging are paid for by FRIM, for business reasons, and are not provided as a payment for client referrals.

As disclosed under Item 12 (above) FRIM also participates in TD Ameritrade's institutional customer program and FRIM may recommend TD Ameritrade to clients for custody and brokerage services. There is no direct link between FRIM's participation in the program and the investment advice it gives to its clients, although FRIM receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving FRIM participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to FRIM by third party vendors.

TD Ameritrade may also have paid for business consulting and professional services received by FRIM's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit FROM but may not benefit its client accounts. These products or services may

assist FRIM in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help FRIM manage and further develop its business enterprise. The benefits received by FRIM or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, FRIM endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by FRIM or its related persons in and of itself creates a potential conflict of interest and may indirectly influence FRIM's choice of TD Ameritrade for custody and brokerage services.

FRIM may receive client referrals from TD Ameritrade through its participation in TD Ameritrade AdvisorDirect. In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, FRIM may have been selected to participate in AdvisorDirect based on the amount and profitability to TD Ameritrade of the assets in, and trades placed for, client accounts maintained with TD Ameritrade. TD Ameritrade is a discount broker-dealer independent of and unaffiliated with FRIM and there is no employee or agency relationship between them. TD Ameritrade has established AdvisorDirect as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. TD Ameritrade does not supervise FRIM and has no responsibility for FRIM's management of client portfolios or FRIM's other advice or services. FRIM pays TD Ameritrade an on-going fee for each successful client referral. This fee is usually a percentage (not to exceed 25%) of the advisory fee that the client pays to FRIM ("Solicitation Fee"). FRIM will also pay TD Ameritrade the Solicitation Fee on any advisory fees received by FRIM from any of a referred client's family members, including a spouse, child or any other immediate family member who resides with the referred client and hired FRIM on the recommendation of such referred client. FRIM will not charge clients referred through AdvisorDirect any fees or costs higher than its standard fee schedule offered to its clients or otherwise pass Solicitation Fees paid to TD Ameritrade to its clients. For information regarding additional or other fees paid directly or indirectly to TD Ameritrade, please refer to the TD Ameritrade AdvisorDirect Disclosure and Acknowledgement Form.

FRIM's participation in AdvisorDirect raises potential conflicts of interest. TD Ameritrade will most likely refer clients through AdvisorDirect to investment advisors that encourage their clients to custody their assets at TD Ameritrade and whose client accounts are profitable to TD Ameritrade. Consequently, in order to obtain client referrals from TD Ameritrade, FRIM may have an incentive to recommend to clients that the assets under management by FRIM be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. In addition, FRIM has agreed not to solicit clients referred to it through AdvisorDirect to transfer their accounts from TD Ameritrade or to establish brokerage or custody accounts at other custodians, except when its fiduciary duties require doing so. FRIM's participation in AdvisorDirect does not diminish its duty to seek best execution of trades for client accounts.

## **Item 15 - Custody**

FRIM is not a qualified custodian (bank or broker-dealer) and does not generally have custody of client assets.

In those limited and incidental situations where FRIM is deemed to have custody by virtue of its ownership by a bank and affiliation with a Trust Company (and also where Investment Adviser Representatives of FRIM act as Trustees in their personal capacity), FRIM is subject to a surprise audit.



Generally, an unaffiliated qualified custodian has custody of client assets and sends monthly or quarterly account statements directly to its clients.

Clients receiving such account statements directly from the broker-dealer, bank or other qualified custodian should carefully review and reconcile those statements against those sent by FRIM.

Most, but not all of FRIM's clients also receive quarterly reports and market commentary from FRIM.

## **Custody and Cash Balances**

Clients of FRIM must enter into a custodial agreement with a broker-dealer, bank or trust company (“Custodian”), that acts as custodian for the account assets in accordance with client’s instructions. Client grants authority to FRIM to enter into, on client’s behalf, custodial agreements for those investment managers or subadvisors that require specific custodians. The custody of the account assets will be maintained with the Custodian. The Custodian will typically be responsible for settling securities transactions placed on behalf of the client’s account by Investment Managers. FRIM will not have custody or physical control of the cash and assets in the account and is not liable for acts or omissions of the Custodian. The Custodian and each Investment Manager and Investment Fund provide FRIM periodic reports concerning the status of the account. The Custodian also is required to send to the client, at least quarterly, a statement indicating all amounts dispersed from the account (including the amount of any fee paid pursuant to client’s authorization to FRIM), all transactions occurring in the account during the period covered by the statement and the funds, securities and other property in the account at the end of the period.

The Custodian may offer different methods to hold cash balances in clients’ accounts pending more permanent investment or distribution. Where available through a Custodian, cash balances held in custody may be held through the “Eagle One Sweep” program, by which the Custodian places excess cash in brokerage accounts in bank deposits at First Republic Bank, the parent company of FRIM. If authorized by the client, FRIM may designate the Eagle One Sweep as the cash option for client’s account and place any cash balances in clients’ account in bank deposit accounts at First Republic Bank. Cash balances in a client’s account may also be placed in other sweep programs offered by the Custodian, including in bank deposits of FDIC-insured depository institutions not affiliated with FRIM, shares of money market mutual funds or held as free credit balances at the Custodian. The Custodian may change the options for holding these balances upon 30 days’ prior notice to clients.

Cash balances held through the “Eagle One Sweep” program are bank deposits eligible for FDIC-insurance up to the limits specified in the Federal Deposit Insurance Act and rules of the FDIC (in an aggregate amount with any other deposits held by the client in the same right and capacity at First Republic Bank) and are not eligible for Securities Insurance Protection Corporation (“SIPC”) coverage. Cash balances invested in money market mutual funds or held in free credit balances are not bank deposits and are not insured by the FDIC but may be eligible for SIPC coverage.

A client may contact the Custodian and request a different sweep option for an account if the client does not want cash balances in its account placed in deposit accounts at First Republic Bank.

## **Item 16 - Investment Discretion**

FRIM shall have full discretion and authority, without obtaining the prior approval of client: (i) to supervise and direct the investment of the account assets; (ii) to effect any and all transactions in

securities and other financial instruments (and options and other contracts thereon), and everything connected therewith in the broadest sense, including, without limitation, the incurrence of investment transaction-related expenses; (iii) to direct banks, brokers or other custodians to effect deliveries of funds or assets, but only in the course of effecting portfolio transactions for the account; (iv) to hire, delegate discretionary investment authority to, and terminate Investment Managers and select Investment Funds for investment of the account assets (which may include Investment Managers that are affiliated or unaffiliated with FRIM and Investment Funds managed by companies that are affiliated or unaffiliated with FRIM); (v) to allocate and reallocate account assets among Investment Managers and Investment Funds, including registered and unregistered Investment Funds managed by affiliates of FRIM; and (vi) to make and execute all such documents and to take all such other actions as FRIM considers necessary or appropriate to carry out its duties hereunder; subject, in each case, to (A) the IPS, (B) the other terms and conditions contained in the client's IMA with FRIM, including, without limitation, in respect of ERISA/IRA Accounts and (C) the written limitations imposed by client from time to time.

## **Item 17 - Voting Client Securities**

FRIM has adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with our fiduciary duties and SEC Rule 206(4)-6 under the Advisers Act. Our authority to vote the proxies of our clients is established by our advisory contracts or comparable documents, and our proxy voting guidelines have been tailored to reflect these specific contractual obligations. In addition to SEC requirements governing advisers, our proxy voting policies reflect the long-standing fiduciary standards and responsibilities for ERISA accounts set out in Department of Labor ("DOL") Bulletin 94-2, 29 C.F.R. 2509.94-2 (July 29, 1994). Specifically, the DOL has issued interpretations of ERISA stating that: • The ability to vote proxies constitutes a plan asset; • Fiduciaries, in voting proxies, should determine whether the proposals will add or detract from the value of the company over the time frame of the investment; • Unless there is a clear reservation of authority to vote proxies to the trustees or named fiduciary, the investment manager will be responsible for voting; and • Investment managers can and should develop policies to aid in determining how to vote on recurring issues.

## **General Philosophy**

FRIM the proxies we hold on behalf of our clients as significant corporate assets. For the sake of efficiency, FRIM designates a proxy voting agent to exercise our votes. Currently, EC Proxy Voting Service is our proxy voting service provider, and has been designated to execute our votes in accordance with our proxy voting guidelines. Our Proxy Voting Guidelines are designed to be responsive to the wide range of issues that can be raised in proxy situations. FRIM has a responsibility to provide competitive rates of return to our investors, and we will generally not support resolutions that are likely to harm a company's long-term financial health. The current version our Proxy Voting Guidelines is available upon request. The following items were also taken into consideration: Client's Best Interest - all proxy matters will be conducted in the best interest of our clients. Case-by-Case Basis - each vote is ultimately cast on a case-by-case basis, taking into consideration the contractual obligations under the IMA and all other relevant facts and circumstances at the time of the vote. In the event a client wishes to provide direction regarding a particular vote that has been entrusted to FRIM, such instruction must be provided by the client in writing and in a timely fashion so as to meet voting deadlines. Conflicts of Interest - any material conflicts will be resolved in the best interest of clients. Limitations – FRIM will take a limited role in voting proxies under the following circumstances: • No Responsibility. In situations where a client has instructed FRIM that he/she will assume responsibility for proxy voting, FRIM will have no involvement in voting (Note: Applicable custody banks are instructed to mail proxy material directly to clients). • Geographical Limitations on Proxy Voting - All proxies will be voted for US securities. FRIM

does not generally vote shares of companies domiciled outside the US, and cannot guarantee the ability to vote shares of companies domiciled outside the US. at all times.

In many countries, proxy voting can be complicated and onerous. In some countries, for example, proxy materials are not generally available until 15 days prior to a meeting. Shareholders are thus unable to review proxy issues and company materials thoroughly. In many countries, there is no procedure for mailing in proxy votes; shareholders must attend the meeting in person in order to exercise their vote. Many countries also allow companies to engage in 'share-blocking' whereby trading company stock within a given period of time on or around a meeting date is prohibited. In most countries, the shareholder resolution process is limited and there are few investment institutions with the capacity to sponsor resolutions of interest to socially responsible shareholders.

Clients may choose to receive any or all of their proxies or other solicitations directly from their custodian or a transfer agent, and vote any or all, in their sole discretion.

## **Class Action Lawsuit Recoveries**

For the sake of efficiency, FRIM has engaged the services of Chicago Clearing Corporation to participate in class action shareholder lawsuits, on a best efforts basis, for securities beneficially owned by clients during relevant class action periods. Chicago Clearing Corporation earns a contingency fee of twenty percent (20%) of all monies recovered for clients through the filing and administration of class action lawsuit claims. Clients may choose to track their holdings versus relevant shareholder class action lawsuits, opt in or out and/or complete the paperwork instead and in lieu of Chicago Clearing Corporation, in their sole discretion.

## **Item 18 - Financial Information**

FRIM is a wholly owned subsidiary of First Republic Bank, a publicly traded company, the balance sheet of which is publicly available.

FRIM does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance and therefore a balance sheet of FRIM is not required to be disclosed.

FRIM has no financial condition to disclose that is reasonably likely to impair your ability to meet contractual commitments to clients at this time.

FRIM has not been the subject of a bankruptcy petition at any time during the past ten years, and is no longer affiliated with either Bank of America or Merrill Lynch.