

**Item 1 – Cover Page**



**Form ADV Part 2A**

Date of Brochure: December 31, 2014

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CRD No.: 112923  
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Sterling Investment Management, Inc. is a registered investment advisor with the federal Securities and Exchange Commission (SEC). The statements contained herein have not been verified or evaluated by any regulator. Registration does not imply that Sterling Investment Management, Inc., or its associates, has attained a certain level of skill or training.

Clients and prospective clients are encouraged to visit the SEC's Investment Adviser Public Disclosure (IAPD) for more information about Sterling Investment Management, Inc. Additional information about Sterling Investment Management, Inc. "Sterling" is available via website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with Sterling who are registered, or are required to be registered, as investment adviser representatives of Sterling.

Sterling Investment Management, Inc. shall be referred to as "Sterling" throughout the remainder of this document.

## **Item 2 – Material Changes**

- Item 4, Advisory Business, Section E. Assets Under Management:
  - Updated assets under management as of the date of this brochure amendment, 12/31/2014
- ADV Part 2B for Miguel Silva, CFA:
  - Recently promoted to Managing Director.
- ADV Part 2B for Alok Jha:
  - Recently promoted to Senior Research Analyst
  - Registered as an investment advisor representative of Sterling.
- ADV Part 2B for Arumayta Martinez:
  - Registered as an investment advisor representative of Sterling.

Currently, our Brochure may be requested by contacting [info@sterlinginvestor.com](mailto:info@sterlinginvestor.com).

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## **Item 4 – Advisory Business**

### **A. Firm Information**

Sterling Investment Management, Inc. is an SEC-registered investment advisor providing sophisticated portfolio management services to high net worth individuals, endowments, foundations and corporations located throughout the United States.

John H. Payne, CFA is the sole, principal owner, President and Chief Investment Officer of Sterling Investment Management, Inc.

Sterling is organized as an S-Corp in the State of Arizona and has been in continuous operation since November 1995.

### **B. Advisory Services Offered**

Investment Supervisory Services – Sterling provides clients with ongoing investment advisory services on a fee-only basis. Sterling's diversified portfolios typically consist of individual debt and equity securities, as well as alternative asset classes. In addition, mutual funds and exchange traded funds (ETF's) may be implemented. Each portfolio is individually customized predicated on the risk tolerance, time horizon and the unique financial and investment goals of each client.

Sterling's investment philosophy is to maximize the total returns in our investment portfolios while assuming a reasonable level of risk. Sterling approaches securities analysis from the perspective of a business owner. We seek to own a fractional interest in a business that has a very high probability of generating attractive returns on our invested capital over a long-term time horizon.

We structure and manage investment portfolios comprised of:

- equity securities designed to create long-term capital appreciation and provide modest dividend income;
- fixed income holdings to generate current cash flow as well as reduce overall portfolio volatility;
- alternative assets such as real estate and commodities, and in suitable circumstances;
- Sterling implements option strategies and short selling positions.

Investment Supervisory Services are performed on a discretionary basis exclusively. For more information on Sterling's discretionary and non-discretionary asset management practices see Item 16 – Investment Discretion below.

Financial Planning Services – Sterling provides some financial planning to clients in conjunction with our investment supervisory services. Sterling creates individualized Investment Policy Statements (IPS) based partly on our proprietary economic scenario analysis to assist our clients in understanding the changing variables which impact their long term net worth. The financial plan may include a review of a client's net worth (including assets and liabilities), investment objectives, risk tolerance, risk capacity, income tax projection, net cash flow analysis, required rate of return analysis, review and analysis of fringe benefits, retirement forecast and probability analysis, educational funding analysis,

and risk management review. The IPS will be reviewed and updated with the client on a frequent basis. There are no additional fees for this service.

In performing its services, Sterling entrusts that the client will provide complete, accurate information and Sterling will not be obligated to verify any information received from the client or from any of the Client's other financial, accounting and estate planning professionals. The client retains absolute discretion over all implementation decisions and is free to accept or reject any recommendation from Sterling. Moreover, clients are advised that it remains their responsibility to promptly notify Sterling if there is ever any change in their financial situation during the financial planning process.

### **C. Client Account Management**

Prior to engaging Sterling to provide investment advisory services, the client is required to enter into an Investment Advisory Services Agreement setting forth the terms and conditions of the engagement, as well as describing the scope of the services to be provided. These services may include:

- Establishing an Investment Policy Statement – Sterling will create a statement which outlines the client's investment goals and objectives including the strategies to be used to meet these objectives. We will provide the client with specific information on investment time frame, risk tolerance, net income and expenses, and asset allocation strategies that will be used and monitored based on changing economic climates and investor objectives.
- Determining Portfolio Asset Allocation – Sterling will formulate a long-term asset allocation strategy with the client, which specifies the percentage of assets to be invested between equity, fixed-income securities, alternative assets, and cash or money market funds.
- Selecting Investment Options – Sterling provides each client with a highly focused investment style and/or investment strategy to best meet their goals. The investments will include multiple asset classes, sectors and global geographic regions, chosen to fit within Sterling's overall investment strategy.
- Ongoing Investment Monitoring – To assess and examine the performance of our investment strategies and individual holdings, Sterling develops a series of client-specific investment benchmarks to monitor and measure the long-term progress of each client's investment capital. We establish a framework to measure specific asset class objectives and report both absolute and relative investment performance compared to appropriate benchmarks. Sterling also develops an explicit total return benchmark to integrate the investment portfolio's impact on our client's complete financial condition.

Our customized portfolio management services not only focus on generating attractive, risk-adjusted total returns, but also are designed to mitigate the multiple layers of fees and expenses that have steadily grown in the financial services industry over the years.

**D. Wrap Fee Programs**

Sterling does not place client assets with any wrap fee programs. All management services are performed by Sterling in behalf of our clients.

**E. Assets Under Management**

As of December 31, 2014 the most recent date for which such calculations are available, Sterling manages the following assets:

- Discretionary Assets \$281,409,847
- Non-discretionary Assets \$740,330
- Total \$282,150,177

**Item 5 – Fees and Compensation****A. Fees for Advisory Services**

Advisory Services – Sterling provides discretionary investment advisory services on a fee-only basis. Sterling's investment management fee is based upon the total market value of the assets under direct management. Fees for advisory services vary depending on the amount of assets managed by Sterling. Sterling's annual investment advisory fee is based upon a percentage (%) of the market value of the assets placed under Sterling's management (between negotiable and 1%), as follows:

	<u>Market Value of Portfolio</u>	<u>Annual Fee</u>
• Asset market values up to	\$ 2,000,000	1.00 %
• Market values of	\$ 2,000,000 to \$ 5,000,000	0.95 %
• Market values of	\$ 5,000,000 to \$ 7,500,000	0.90 %
• Market values of	greater than \$ 7,500,000	(Negotiated)

Sterling generally requires an annual minimum fee of \$10,000 for investment advisory services. However, Sterling, in its sole discretion, may reduce its annual fee minimum and/or charge a lesser investment 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, negotiations with the client, etc.).

No account set up fees will be charged to any investment management relationship. Account relationships may be combined for aggregate market value fee base calculations.

Other Professional Services – For services that fall outside of Sterling's normal advisory agreements and services, Sterling may charge an hourly rate fee for professional advisory services. The hourly rate is \$500 per hour, and is calculated by rounding up to the next full hour of services provided.

**B. Fee Billing**

Sterling's annual investment advisory fee shall be paid quarterly. Quarterly investment management fee calculations are based upon the average total market values of each respective account over the previous three (3) months. The fee amount due is calculated by taking the average account value over a three month period and applying the appropriate annual fee percentage to the client's account value. All portfolio market values are based on prices determined at month end as calculated by independent custodians. Each billing will be for one-quarter of the annual fee. Each account may be subject to a minimum annual fee. Based on specific client circumstances, certain exceptions may apply.

As approved in writing by the client, Sterling will request the custodian to electronically debit advisory fees directly from the client's account. At the sole discretion of Sterling, the client may also request to be manually billed in order to pay via check.

It is the client's responsibility to verify the accuracy of the fee calculation as each custodian will not determine whether the fee is properly calculated. All investment advisory fees paid directly to Sterling will be clearly reflected on the client's monthly brokerage statements that are independently prepared and sent to the client by the custodian. Investment management fees are also documented in Sterling's Income and Expense reports, which are provided on request.

For hourly rate charges, the client will receive a bill created manually by Sterling. Sterling will expect prompt payment in the form of check made payable to: Sterling Investment Management, Inc.

**C. Other Fees and Expenses Clients May Pay**

Clients may incur certain fees or charges imposed by third-parties other than Sterling in connection with investments made by Sterling on behalf of our clients. These fees and charges are separate and distinct from the fees paid to Sterling and may include, but not be limited to:

- Trade commissions and other trade costs charged by the custodian, or Prime Broker firm
- ADR management fees and Foreign Tax Paid on international holdings
- Interest charged on outstanding debit or margin balances
- Mutual fund 12b-1 fees, and certain deferred sales charges on previously purchased mutual funds subsequently transferred into the account,
- Other transaction related fees, IRA and Qualified Retirement Plan fees,
- Check, DTC wire and other bank service fees,

Sterling is not responsible for and does not receive any portion of these fees or charges.

**D. Refunds of Advance Fees**

Sterling charges its quarterly advisory fees in advance in as described above in Item 5. B. Fee Billing. All fees are calculated in the same manner, as a percentage of assets under management.

In the event a client is owed a refund, the fee amount will be prorated for the number of days remaining in the current billing period. A check will be issued to the account owed, and mailed to the address of record.

**E. Compensation for Sale of Securities by Supervised Persons**

Sterling does not receive any compensation for securities transactions.

**Item 6 – Performance-Based Fees and Side-By-Side Management****A. Performance-Based Fees**

Sterling does not currently charge performance-based fees for any client. If Sterling were to enter into such an arrangement, full disclosure will be made in this section.

**B. Side-By-Side Management**

Sterling is not currently involved in any pooled account or Side-By-Side Management agreements.

**Item 7 – Types of Clients**

Sterling may provide services to a variety of client types. Clients may include:

- Individuals, Personal Trusts and Estates
  - Private investors, investing personal assets
- Profit Sharing plans
  - Generally organized as a trust, investing the pooled assets of plan participants
- Charitable Organizations, Foundations and Endowments
  - Non-profit entities investing contributions to support a stated mission or mandate
- Corporations
  - Taxable entities organized for a specific business purpose, investing cash reserves

The relative percentage each client type currently represented is available on Sterling's Form ADV Part 1. The actual mix of clients changes over time based upon market conditions, business plans and other factors. Sterling does not specialize in, or actively seek, any given client type. Sterling is committed to providing services to qualified investors, regardless of legal or corporate status.

Sterling may only implement its investment management recommendations after the client has arranged for and furnished Sterling with all information and authorization regarding accounts with appropriate financial institutions. Sterling imposes a minimum account balance of \$500,000 when opening an account, but may waive this minimum at its discretion.



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

### **A. Methods of Analysis**

Equities, Fixed-Income, Alternative Investments and Options – Sterling's investment process combines "top down" global and macroeconomic analysis with disciplined fundamental individual security analysis to structure and manage investment portfolios. Fundamental analysis is the process of looking at economic and business indicators as investment selection criteria. These criteria are usually ratios and trends that may indicate the overall strength and financial viability of the entity being analyzed. Sterling considers macroeconomic factors, as well as factors specific to an individual security. Portfolio holdings are comprised of individual securities from a wide range of asset classes.

Macroeconomic factors considered by Sterling include, but are not limited to:

- General economic conditions
- Inflation trends
- Interest rates and the yield curve
- Market volatility and trends
- Monetary policies
- Legislative actions

Issue specific factors include, but are not limited to:

- Earnings
- Cash flow
- Growth estimates and trends
- Management strength and stability
- Credit rating

Asset diversification is widely recommended by the investment community, but rarely understood in the context of meeting long-term financial investment objectives. Simply stated, the valuation of every asset class is not always attractive at the same time. Subsequently, preordained asset allocation targets will fail to meet long-term financial needs.

Properly structured, alternative assets have the ability to provide portfolios with asymmetrical return distributions in a manner that enhances and diversifies the return profile of each portfolio. Our experienced investment team uses a wide range of conservative alternative investments to assist our clients in hedging both market and sector risk, as well as add incremental current income.

Sterling's management team has the expertise and knowledge to implement call or put options strategies, short selling strategies, along with various income-generating securities such as master limited partnerships (MLPs), limited liability corporations (LLCs) and real estate investment trusts (REITs) that offer high relative current yields in a low-rate environment. Other assets in our alternative asset strategies include timber and commodity investments.

Other methods of analysis may be employed by Sterling as deemed appropriate.

**B. Risk of Loss**

Sterling makes every effort to ensure positive outcomes for our clients. However, every asset class has unique valuation and return structures that require both strategic and tactical asset allocation decisions to maintain consistency with client risk and return objectives. We measure risk as the permanent loss of capital, not the academic description of security price volatility. In fact, we welcome volatility as unstable market episodes provide the best opportunities to purchase or sale securities at attractive prices.

There can be no assurance that clients will achieve their investment goals. Sterling's research and analysis process is designed to reduce this risk as much as possible, but clients may still lose a substantial portion of their investment.

Option and Short Selling – Certain investment strategies offered by Sterling may make use of option and/or short selling strategies to provide diversification and/or reduce equity risk. These strategies run the risk of losing value in a relatively short period of time.

Option contracts are leveraged instruments that allow the holder of a single contract to control many shares of the underlying stock. This imbedded leverage may compound gains and losses.

**Item 9 – Disciplinary Information**

Sterling has never been involved in, nor does it have, any firm or individual disciplinary disclosures to make.

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

Sterling is not involved in any other Financial Industry Activities.

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

Sterling has adopted a Code of Ethics for the purpose of instructing its personnel in their ethical obligations and to provide rules for their personal securities transactions. Sterling and its personnel owe a duty of loyalty, fairness and good faith towards clients, and the obligation to adhere not only to the specific provisions of the Code but to the general principles that guide the Code.

The Code of Ethics covers a range of topics that may include; general ethical principles, reporting personal securities trading, exceptions to reporting securities trading, reportable securities, initial public offerings and private placements, reporting ethical violations, distribution of the Code of Ethics, review and enforcement processes, amendments to Form ADV and supervisory procedures.

Sterling has written its Code of Ethics to meet and exceed regulatory standards. Copies are available upon request by contacting Sterling's Chief Compliance Officer at 520-293-3311.

## **B. Personal Trading and Participation in Client Transactions**

Sterling or its employees may purchase or sell for themselves similar or different securities as are recommended to Sterling's clients. Sterling has implemented an investment policy relative to personal securities transactions of its employees. This investment policy is part of Sterling's overall Code of Ethics, as described above, which serves to establish a standard of business conduct for all of Sterling's supervised persons. Sterling's personal trading policy is based upon fundamental principles of openness, integrity, honesty and trust. To prevent conflicts of interest, all personal trades made by Sterling's employees are reviewed by supervisory personnel. Additionally, Sterling's policies and procedures prohibit the misuse of material nonpublic information and are designed to prevent insider trading by any employee.

## **C. Interest in Client Transactions**

Sterling may recommend that its clients invest in private investment limited liability corporations. Prior to recommending such investment, Sterling will confirm that the client is an accredited investor and a qualified client, and that such investment is suitable to such client.

John H. Payne, CFA is a minority member of nine (9) private investment limited liability corporations. The limited liability corporations are comprised of a small number of accredited investors, some of which are also clients of Sterling.

Please Note: Private investment limited liability corporations generally involve various risk factors and liquidity constraints, a complete discussion of which is set forth in each limited liability corporation's offering documents, which will be provided to each client for review and consideration.

## **Item 12 – Brokerage Practices**

### **A. Soft Dollars**

Sterling holds the accountability to our clients in the highest respect when determining whether to engage in a soft dollar arrangement with a third-party. We are obligated to consider the following set of fundamental principles:

- Sterling is a fiduciary and, as such, must disclose all relevant aspects concerning any benefit that we, as the manager, will receive through a client's brokerage;
- Proprietary research and third-party research are to be treated the same in evaluating soft dollar arrangements, because the research that an investment manager receives from each is paid for with client brokerage;
- Research should be purchased with client brokerage only if the primary use of the research, whether a product or a service, directly assists Sterling in its investment management decision-making process and not in the management of the firm; and
- When in doubt the research should be paid for with Sterling's assets, not client brokerage.

Consistent with Sterling's Best Execution policies (see below Item 12, C.), CFA Institutes Soft Dollar Standards, and section 28(e) of the Securities Exchange Act of 1934, Sterling may pay commissions to broker-dealers at a level which may be higher than those charged by other firms. The difference in the commission rates is known as "soft dollars." These higher commission rates may be paid if Sterling determines in good faith that the amount of the commission is reasonable in relation to the value of the brokerage and research services provided by the executing broker viewed in terms of Sterling's responsibilities to its clients. Soft dollars may be used to offset the cost of certain services, including; research data on particular industries and companies, economic survey and analysis, quote services, trade execution systems, and computer-related costs. Such products and services provide lawful and appropriate assistance to Sterling in the performance of its investment responsibilities for its clients.

#### Charles Schwab & Co.

While Sterling is able to work with any custodian or broker-dealer the client chooses, it is Sterling's preference to maintain a custodial relationship primarily with the Institutional Services division of Charles Schwab & Co. (Schwab). In connection with the Schwab relationship Sterling receives certain benefits, including, but not limited to; custodian/adviser interface software, certain practice management software and resources, marketing support, trade desk access and block trading capabilities. This relationship is subject to change if it is determined to be in the best interests of Sterling's clients.

Sterling may also receive upfront expenses for technology needs from Schwab. Additionally, Sterling may receive the following benefits from Schwab Institutional: receipt of duplicate client confirmations and bundled duplicate statements, access to a trading desk that exclusively services its Institutional clients; 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 inventory and communication network for client order entry and account information.

Client accounts may not benefit equally from services and products received via these soft dollars. These benefits cause a conflict of interest between Sterling and clients since these benefits may influence Sterling's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services. Products and services received by Sterling via soft dollars are standard to all advisers utilizing Schwab.

#### **B. Aggregate, or Block, Trade Allocations**

In placing its orders to purchase or sell securities in client accounts, Sterling may elect to aggregate orders. Sterling will not aggregate transactions unless aggregation is consistent with the duty to seek Best Execution. As a matter of policy, Sterling's trade allocation procedures must be fair and equitable to all clients. Sterling will use average pricing to achieve fair and equitable executions.

Ordinarily, the executing broker-dealer will provide an average price that will be allocated to all accounts participating in the aggregated trade. Because of prevailing market conditions it may not be possible to execute all shares of an aggregated trade, in which case Sterling will allocate the trade among participating accounts in an equitable manner determined prior to execution of the trade.

### C. Brokerage Partners and Best Execution

In selecting brokers-dealers, and determining the reasonableness of commissions and mark-ups charged, Sterling will attempt to effect securities transactions for clients in such a manner that the clients receive the highest quality transaction, under the circumstances. This is known as “Best Execution”. In selecting broker-dealers, Sterling need not solicit competitive bids and does not have an obligation to seek the lowest available transaction cost (e.g., commission cost). The determinative factor is whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer’s services including execution capability, commission rates, and responsiveness. Accordingly, although Sterling will seek competitive commission rates, it may not necessarily obtain the lowest possible rates for account transactions.

Sterling may consider a number of factors in utilizing brokers-dealers for client brokerage transactions. Among the factors considered by Sterling are:

- Transaction net costs
- Security price
- Clearance and settlement practices
- Ease of execution
- Firm commitment to regulatory compliance
- Industry reputation
- General financial strength and stability
- Breadth of products and services
- Research capabilities

These factors are expected to enhance the portfolio management capabilities of Sterling. Sterling does not attempt to demonstrate that such factors are of a direct benefit to all clients on all trades. Research and brokerage services received may be used to service some, or in certain circumstances, all clients, subject to compliance with applicable law.

Sterling has selected the Institutional branch of Charles Schwab & Co., Inc. as its preferred brokerage services and custody provider with respect to the separately managed accounts. See Item 15 – Custody below for more information about Charles Schwab & Co., Inc.

The client may direct Sterling to use a particular broker-dealer (subject to Sterling’s right to decline and/or terminate the engagement) to execute some or all transactions for the client's account. In such event, the client will negotiate terms and arrangements for the account with that broker-dealer, and Sterling will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by Sterling. As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

In the event the client directs Sterling to initiate securities transactions for that client's accounts through a specific broker-dealer, the client also acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur than if the client determined to utilize Sterling’s available alternative clearing arrangements.

## **Item 13 – Review of Accounts**

### **A. Frequency of Reviews**

Sterling performs reviews of all investment advisory accounts and portfolio holdings no less than quarterly. Investment portfolios are reviewed for consistency with the investment strategy and performance.

Financial plans are reviewed on an as needed-basis. Reviews may be triggered by changes in an account holder's personal, tax or financial status. Financial planning clients are contacted at least annually to update financial information and, if necessary, the financial plan.

### **B. Causes for a Review**

In addition to the monitoring described above, reviews may be triggered by changes in a client's tax or financial status. Macroeconomic and issuer specific events may also trigger reviews.

### **C. Review Reports**

Investment Advisory Reports – Brokerage statements for each individual account are generated by the custodian on a monthly basis. These statements are sent directly to each client from the custodian. Client account statements list the account positions, activity in the account over the covered period, and other related information. Clients are also sent confirmations following each brokerage account transaction. In addition, Sterling provides the client account statements, which have been reconciled against the custodial statements. Sterling's statements are sent on a quarterly basis, or a monthly basis, based upon each client's request. Sterling may also provide performance reports, realized gain and loss, income and expense, or other reports as requested.

As noted above, quarterly reviews for all investment supervisory services are performed through the preparation of the quarterly account reports, which include asset allocation, returns, transactions, top holdings, among other relevant information.

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

Sterling may refer clients to various third-parties to provide certain services necessary to meet financial goals. Likewise, Sterling may receive a client referral from a third party. In either case, no compensation is given or received. All referrals are a professional courtesy and in the interest of the client.

### **A. Compensation Received by Sterling**

Sterling does not receive any compensation from third-parties in exchange for referring business to that third-party. Except as otherwise disclosed in Item 12, Sterling is compensated exclusively by clients.

Although not a material consideration when determining whether to recommend a client to utilize the services of a particular broker-dealer/custodian, Sterling may receive from the custodian, Schwab,

without cost (and/or at a discount) support services and/or products. Some of those support services or products assist Sterling to better monitor and service client accounts maintained at such institutions.

Included within the support services that may be obtained by Sterling may be:

- Investment-related research
- Pricing information and market data
- Software and other technology that provide access to client account data
- Compliance and/or practice management-related publications
- Discounted consulting services
- Discounted attendance at conferences
- Meetings, and other educational and/or social events
- Marketing support
- Computer hardware and/or software and/or other products used by Sterling to improve its investment advisory business operations

As indicated above, certain support services and/or products which are potentially available to Sterling may also assist Sterling in managing and administering client accounts. Other products and services do not directly provide such assistance, but rather assist Sterling to manage and further develop its business enterprise. Sterling's clients do not pay more for investment transactions completed with Schwab and/or assets maintained at Schwab as result of this arrangement. There is no corresponding commitment made by Sterling to Schwab, or any other entity, to invest any specific amount or percentage of client assets in any specific securities, mutual funds or other investment products as result of the above arrangement.

Sterling's Chief Compliance Officer, Crandall L. Smith, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest any such arrangement may create.

## **B. Client Referrals to Sterling**

Sterling does not compensate any third-party for referring clients to Sterling. All client relationships are established by way of personal or professional contact and through existing business relationships.

## **Item 15 – Custody**

Sterling will not maintain physical possession of the funds or securities of any separately managed investment advisory client. Sterling has entered into an agreement with a brokerage firm that currently serves as the primary custodian of client funds and/or securities. The preferred custodian for Sterling at this time is Charles Schwab & Co. Charles Schwab & Co. is a FINRA member firm headquartered in San Francisco, CA. In addition, Sterling may enter into custodial arrangements with other brokerage firms and bank trust departments.

Employees of the firm may serve as Trustee to Trust accounts which Sterling also provides advisory services. Sterling's management fees are paid by those trust accounts individually in an identical manner to all other advisory accounts. The accounts where Sterling employees serve as trustee are audited on an annual basis by a third-party accounting firm and transactions are verified by the other trustees of each trust.

All clients, including those accounts where Sterling employees act as trustee, receive statements of account holdings from their account custodian on monthly basis. Additionally, Sterling will also provide all clients with statements on a quarterly basis. For those clients who prefer a more frequent statement from Sterling, upon request, Sterling will send statements on a monthly basis.

While Sterling does not have custody of client funds or securities, payments of fees may be paid by the custodian from the custodial brokerage account that holds client funds. In certain jurisdictions this may be deemed constructive custody. Prior to permitting direct debit of fees each client provides written authorization permitting fees be made direct from the custodian. The custodian sends every client an account statement on a monthly basis showing all account activity, including the amounts disbursed from the account to Sterling.

## **Item 16 – Investment Discretion**

### **Discretionary Portfolio Management**

Any limitations imposed on the discretionary authority of Sterling shall depend on the terms of the agreement governing Sterling's relationship with each client on an individual basis. In those cases where Sterling has full discretionary authority over client accounts and the client has not imposed any specific restrictions, Sterling will generally have unlimited discretionary authority, without obtaining specific consent, to determine:

- Securities to be bought or sold
- Amount of the securities to be bought or sold
- Broker or dealer to be used
- Commission rates paid

In such cases, there are no limitations on Sterling's authority in the areas indicated (other than as may be imposed by law or by a client's specified restriction). It should be noted that with regard to commission rates, Sterling does not have the power to determine the rates paid, only the authority to negotiate with and accept or reject rates offered by various broker-dealers.



**Item 17 – Voting Client Securities****Proxy Voting by Sterling**

Sterling will not and does not accept proxy voting authority with respect to securities held in clients' accounts. Consequently, all proxy solicitations will be sent directly to clients for voting. In the event a proxy solicitation is sent to Sterling on behalf of a client, Sterling will forward the solicitation to the client's address of record immediately so that the client may cast their vote. Sterling will provide a voting recommendation on securities as needed.

Clients maintain exclusive responsibility for:

- Directing the manner in which proxies are voted when solicited by issuers of securities
- Making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets.

Sterling will instruct the custodian to forward, to the client, copies of all proxies and shareholder communications relating to the client's investment assets.

**Item 18 – Financial Information**

Sterling does not have any adverse financial information to disclose. The management of Sterling believes that they are financially sound.

**Item 19 – Requirements for State-Registered Advisers**

Sterling is registered with the SEC and has no disclosure requirements.

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**Form ADV Part 2B**

**Brochure Supplement:**  
**John H. Payne, CFA**  
**President and Chief Investment Officer**

Date of Brochure: December 31, 2014

Sterling Investment Management, Inc.  
6262 N. Swan Rd., Suite 210 Tucson, AZ 85718  
16427 N. Scottsdale Rd., Suite 433 Scottsdale AZ 85260

Phone: 520.293.3311  
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[www.sterlinginvestmentmanagment.com](http://www.sterlinginvestmentmanagment.com)

CRD No.: 112923  
SEC File No.: 801-50373

This brochure supplement provides information about John H. Payne, CFA and is meant to supplement the ADV brochure for Sterling Investment Management, Inc. brochure. For a copy of that brochure or if you have any questions about the contents of this supplement please contact Sterling Investment Management, Inc. at the address or phone number listed above.

Sterling Investment Management, Inc. is a registered investment advisor with the federal Securities and Exchange Commission (SEC). The statements contained herein have not been verified or evaluated by any regulator. Registration does not imply that Sterling Investment Management, Inc., or its associates, has attained a certain level of skill or training.

Clients and prospective clients are encouraged to visit the SEC's Investment Adviser Public Disclosure (IAPD) for more information about Sterling Investment Management, Inc. The IAPD web address: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Sterling Investment Management, Inc. shall be referred to as "Sterling" throughout the remainder of this document.

**Item 2 – Educational Background and Business Experience**

John H. Payne, CFA is President and Chief Investment Officer of Sterling Investment Management, Inc. He received a Bachelor of Arts in Geology from Indiana University and attended the University of Wyoming to earn his a Master of Science in Finance with a specialty in Investment Research and a Minor in Accounting. His Master's Thesis regarding investment theory has been published in a leading academic journal.

Mr. Payne attained the professional designation of Chartered Financial Analyst (CFA) in 1990. He is currently a member of the CFA Institute (CFA), CFA Society of Phoenix, and the CFA Society of Tucson.

The CFA Institute requires its members to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct. The Code of Ethics and Standards of Professional Conduct are enforced through an active professional conduct program and require CFA charterholders to:

- Place their clients' interests ahead of their own
- Maintain Independence and Objectivity
- Act with integrity
- Maintain and improve their professional competence
- Disclose conflicts of interest and legal matters

With over 25 years of investment experience, Mr. Payne has performed extensive financial analysis on both individual companies and industry groups. His career has included active portfolio management, trading of equity, fixed income, and derivative securities, as well as publishing investment strategy overviews to communicate tactics and research to clients, peers and the business community.

Prior to founding Sterling in 1995, Mr. Payne was Vice President and Senior Portfolio Manager for Bank of America, managing the Investment Advisory Group. The Investment Advisory Group was responsible for the management of investment portfolios for high-net worth private clients, IRA accounts, non-profit organizations, profit sharing plans, and personal trust accounts.

He currently serves as a member of the Steele Children's Research Center Advisory Board, the Board of Directors for the Community Investment Corporation, is a Member of the Board of the Pima County Industrial Development Authority, and the Advisory Board for Angel Charity for Children, Inc.

Preceding his current affiliations, Mr. Payne has been a member of the Board of Trustees for the Community Foundation of Southern Arizona, Board of Directors for the Tucson Jewish Community Center, Board of Directors for the University Medical Center Foundation, and is a past member of the Board of Trustees for the Arizona-Sonora Desert Museum, among others.

**Item 3 – Disciplinary Information**

There have been no legal or disciplinary events to disclose.

**Item 4 – Other Business Activities**

John H. Payne, CFA, is currently a minority member of nine (9) private investment limited liability corporations. The limited liability corporations are comprised of a small number of accredited investors, some of which are also clients of Sterling Investment Management, Inc.

Mr. Payne does not spend a substantial amount of investment-related business activity on these limited liability corporations.

**Item 5 – Additional Compensation**

John H. Payne, CFA does not provide advisory services to any person other than clients of Sterling Investment Management, Inc.

Mr. Payne does not receive additional compensation for providing advisory services to any person other than clients of Sterling Investment Management, Inc.

**Item 6 – Supervision**

Crandall L. Smith, Chief Operating Officer and Chief Compliance Officer, is responsible for supervising Mr. Payne. Mr. Smith's phone number is 520.293.3311 and email address is CSmith@SterlingInvestor.com.

Mr. Payne is a member and participant of the Investment Policy Committee where investment and policy ideas are discussed as a group prior to delivering investment advice to clients.

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**Form ADV Part 2B**

**Brochure Supplement:**  
**Crandall L. Smith,**  
**Chief Operating Officer**  
**Chief Compliance Officer**

Date of Brochure: December 31, 2014

Sterling Investment Management, Inc.  
6262 N. Swan Rd., Suite 210 Tucson, AZ 85718  
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CRD No.: 112923  
SEC File No.: 801-50373

This brochure supplement provides information about Crandall L. Smith, COO and CCO and is meant to supplement the ADV brochure for Sterling Investment Management, Inc. brochure. For a copy of that brochure or if you have any questions about the contents of this supplement please contact Sterling Investment Management, Inc. at the address or phone number listed above.

Sterling Investment Management, Inc. is a registered investment advisor with the federal Securities and Exchange Commission (SEC). The statements contained herein have not been verified or evaluated by any regulator. Registration does not imply that Sterling Investment Management, Inc., or its associates, has attained a certain level of skill or training.

Clients and prospective clients are encouraged to visit the SEC's Investment Adviser Public Disclosure (IAPD) for more information about Sterling Investment Management, Inc. The IAPD web address: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Sterling Investment Management, Inc. shall be referred to as "Sterling" throughout the remainder of this document.

**Item 2 – Educational Background and Business Experience**

Crandall L. Smith is currently the Chief Operating Officer, Chief Compliance Officer, and a Portfolio Manager for Sterling Investment Management, Inc. Mr. Smith graduated from the Eller College of Management at the University of Arizona with a Bachelor of Science degree in Finance in 2005.

He has 18 years of experience in the financial services industry and has worked with Sterling for 12 years; working on a part-time basis through college and accepting a full-time position with our firm upon his graduation.

As Chief Operating Officer and Portfolio Manager, Mr. Smith provides research and financial analysis for equity and fixed income securities. He assists in the management of investment portfolios for high-net worth private clients, IRA accounts, endowment funds, profit sharing plans and personal trust accounts. In addition, Mr. Smith oversees Sterling's daily operation activities, trading procedures, and portfolio allocation functions.

As Sterling's Chief Compliance Officer, Mr. Smith is responsible for maintaining Sterling's annual and quarterly compliance reporting and insuring that Sterling's staff is aware of and follows Sterling's Code of Ethics, the Securities and Exchange Committee regulations, and the CFA Institutes Code of Ethics and Standards of Professional Conduct.

The CFA Institute requires its members and candidates to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct. The Code of Ethics and Standards of Professional Conduct are enforced through an active professional conduct program and require CFA charterholders to:

- Place their clients' interests ahead of their own
- Maintain independence and objectivity
- Act with integrity
- Maintain and improve their professional competence
- Disclose conflicts of interest and legal matters

Mr. Smith currently serves as a member of the Board of Directors for the House of Warriors Tucson, a nonprofit organization which seeks to offer lower income, at-risk youth and their families an opportunity to participate in athletic training, with a focus on the sport of boxing.

**Item 3 – Disciplinary Information**

There have been no legal or disciplinary events to disclose.

**Item 4 – Other Business Activities**

Mr. Smith is not engaged in any other business, employed or compensated by any other person, serve as an officer, director, partner or employee of another business organization, or owns any stock or having any direct or indirect financial interest in any other organization engaged in any securities, financial or kindred business.

### **Item 5 – Additional Compensation**

Mr. Smith does not provide advisory services to any person other than clients of Sterling Investment Management, Inc.

Mr. Smith does not receive additional compensation for providing advisory services to any person other than clients of Sterling Investment Management, Inc.

### **Item 6 – Supervision**

John H. Payne, CFA, President and Chief Investment Officer, is responsible for supervising Mr. Smith. Mr. Payne's phone number is 520.293.3311 and email address is JPayne@SterlingInvestor.com.

Mr. Smith is a member and participant of the Investment Policy Committee where investment and policy ideas are discussed as a group prior to delivering investment advice to clients.

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**Form ADV Part 2B**

**Brochure Supplement:**  
**Miguel A. Silva, CFA**  
**Managing Director**  
**Portfolio Manager**

Date of Brochure: December 31, 2014

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6262 N. Swan Rd., Suite 210 Tucson, AZ 85718  
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CRD No.: 112923  
SEC File No.: 801-50373

This brochure supplement provides information about Miguel A. Silva, CFA and is meant to supplement the ADV brochure for Sterling Investment Management, Inc. brochure. For a copy of that brochure or if you have any questions about the contents of this supplement please contact Sterling Investment Management, Inc. at the address or phone number listed above.

Sterling Investment Management, Inc. is a registered investment advisor with the federal Securities and Exchange Commission (SEC). The statements contained herein have not been verified or evaluated by any regulator. Registration does not imply that Sterling Investment Management, Inc., or its associates, has attained a certain level of skill or training.

Clients and prospective clients are encouraged to visit the SEC's Investment Adviser Public Disclosure (IAPD) for more information about Sterling Investment Management, Inc. The IAPD web address: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Sterling Investment Management, Inc. shall be referred to as "Sterling" throughout the remainder of this document.



**Item 2 – Educational Background and Business Experience**

Miguel A. Silva, CFA is a Managing Director and Portfolio Manager of Sterling Investment Management, Inc. He graduated from The University of Arizona with his Bachelor of Science degree in Finance. Mr. Silva actively managed a portfolio for the University of Arizona's endowment fund while attending business school. Mr. Silva attended the University of Manchester to earn his Master of Science degree in Finance 2008.

Mr. Silva attained the professional designation of Chartered Financial Analyst (CFA) in 2012. He is currently a member of the CFA Institute (CFA), CFA Society of Phoenix, and the CFA Society of Tucson.

The CFA Institute requires its members to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct. The Code of Ethics and Standards of Professional Conduct are enforced through an active professional conduct program and require CFA charterholders to:

- Place their clients' interests ahead of their own
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- Disclose conflicts of interest and legal matters

As Managing Director and Portfolio Manager, Mr. Silva co-directs and oversees all of the firm's investment strategies and manages clients' portfolios. At a firm-wide level, Mr. Silva formulates investment strategies that exploit current economic and financial trends. At a security level, Mr. Silva conducts in-depth research on equity, fixed income, and derivative securities.

As a member of the Investment Policy Committee, Mr. Silva provides research and financial analysis on the economy, capital markets as well as equity, fixed income, and derivative securities. Mr. Silva is also responsible for presenting potential investment opportunities for client investment portfolios.

**Item 3 – Disciplinary Information**

There have been no legal or disciplinary events to disclose.

**Item 4 – Other Business Activities**

Mr. Silva is not engaged in any other business, employed or compensated by any other person, serve as an officer, director, partner or employee of another business organization, or owns any stock or having any direct or indirect financial interest in any other organization engaged in any securities, financial or kindred business.

### **Item 5 – Additional Compensation**

Mr. Silva does not provide advisory services to any person other than clients of Sterling Investment Management, Inc.

Mr. Silva does not receive additional compensation for providing advisory services to any person other than clients of Sterling Investment Management, Inc.

### **Item 6 – Supervision**

Crandall L. Smith, Chief Operating Officer and Chief Compliance Officer, is responsible for supervising Mr. Silva. Mr. Smith's phone number is 520.293.3311 and email address is CSmith@SterlingInvestor.com.

Mr. Silva is a member and participant of the Investment Policy Committee where investment and policy ideas are discussed as a group prior to delivering investment advice to clients.

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**Form ADV Part 2B**

**Brochure Supplement:**  
**Alok Jha**  
**Senior Research Analyst**

Date of Brochure: December 31, 2014

Sterling Investment Management, Inc.  
6262 N. Swan Rd., Suite 210 Tucson, AZ 85718  
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CRD No.: 112923  
SEC File No.: 801-50373

This brochure supplement provides information about Alok Jha and is meant to supplement the ADV brochure for Sterling Investment Management, Inc. brochure. For a copy of that brochure or if you have any questions about the contents of this supplement please contact Sterling Investment Management, Inc. at the address or phone number listed above.

Sterling Investment Management, Inc. is a registered investment advisor with the federal Securities and Exchange Commission (SEC). The statements contained herein have not been verified or evaluated by any regulator. Registration does not imply that Sterling Investment Management, Inc., or its associates, has attained a certain level of skill or training.

Clients and prospective clients are encouraged to visit the SEC's Investment Adviser Public Disclosure (IAPD) for more information about Sterling Investment Management, Inc. The IAPD web address: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Sterling Investment Management, Inc. shall be referred to as "Sterling" throughout the remainder of this document.

**Item 2 – Educational Background and Business Experience**

Mr. Jha graduated from the University of Arizona's Eller College of Management with a Bachelor of Science in Finance in 2013. While attending business school he actively managed a portfolio for the University of Arizona's endowment fund.

As the senior research analyst for Sterling, Mr. Jha leads the research analyst team. His analysis of equity, fixed income, and derivative securities are an integral component of our clients' investment portfolios. In addition to his investment responsibilities, Mr. Jha conducts operational procedures related to portfolio allocations and trading.

Mr. Jha is currently a 2015 CFA Level II candidate.

The CFA Institute requires its members to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct. The Code of Ethics and Standards of Professional Conduct are enforced through an active professional conduct program and require CFA charterholders to:

- Place their clients' interests ahead of their own
- Maintain Independence and Objectivity
- Act with integrity
- Maintain and improve their professional competence
- Disclose conflicts of interest and legal matters

**Item 3 – Disciplinary Information**

There have been no legal or disciplinary events to disclose.

**Item 4 – Other Business Activities**

Mr. Jha is not engaged in any other business, employed or compensated by any other person, serve as an officer, director, partner or employee of another business organization, or owns any stock or having any direct or indirect financial interest in any other organization engaged in any securities, financial or kindred business.

**Item 5 – Additional Compensation**

Mr. Jha does not provide advisory services to any person other than clients of Sterling Investment Management, Inc.

Mr. Jha does not receive additional compensation for providing advisory services to any person other than clients of Sterling Investment Management, Inc.

## **Item 6 – Supervision**

Crandall L. Smith, Chief Operating Officer and Chief Compliance Officer, is responsible for supervising Mr. Jha. Mr. Smith's phone number is 520.293.3311 and email address is CSmith@SterlingInvestor.com.

Mr. Jha is a member and participant of the Investment Policy Committee where investment and policy ideas are discussed as a group prior to delivering investment advice to clients.

**Item 1 – Cover Page**



**Form ADV Part 2B**

**Brochure Supplement:**  
**Arumayta Martinez,**  
**Trader & Research Analyst**

Date of Brochure: December 31, 2014

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6262 N. Swan Rd., Suite 210 Tucson, AZ 85718  
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CRD No.: 112923  
SEC File No.: 801-50373

This brochure supplement provides information about Arumayta Martinez and is meant to supplement the ADV brochure for Sterling Investment Management, Inc. brochure. For a copy of that brochure or if you have any questions about the contents of this supplement please contact Sterling Investment Management, Inc. at the address or phone number listed above.

Sterling Investment Management, Inc. is a registered investment advisor with the federal Securities and Exchange Commission (SEC). The statements contained herein have not been verified or evaluated by any regulator. Registration does not imply that Sterling Investment Management, Inc., or its associates, has attained a certain level of skill or training.

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**Item 2 – Educational Background and Business Experience**

Ms. Martinez graduated from The University of Central Florida with a Bachelor of Science degree in Finance in 2009. Prior to joining Sterling, she proudly served six years in the United States Air Force as an Avionics Technician.

She is currently enrolled in the Creighton University Masters of Investment Management and Financial Analysis.

As a Trader and Research Analyst, Ms. Martinez is Sterling's primary resource for trade placement and allocation. In addition, she assists in the management of investment portfolios, conducts research and analysis, and serves on Sterling's Investment Policy Committee.

The CFA Institute requires its members to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct. The Code of Ethics and Standards of Professional Conduct are enforced through an active professional conduct program and require CFA charter holders to:

- Place their clients' interests ahead of their own
- Maintain Independence and Objectivity
- Act with integrity
- Maintain and improve their professional competence
- Disclose conflicts of interest and legal matters

**Item 3 – Disciplinary Information**

There have been no legal or disciplinary events to disclose.

**Item 4 – Other Business Activities**

Ms. Martinez is not engaged in any other business, employed or compensated by any other person, serve as an officer, director, partner or employee of another business organization, or owns any stock or having any direct or indirect financial interest in any other organization engaged in any securities, financial or kindred business.

**Item 5 – Additional Compensation**

Ms. Martinez does not provide advisory services to any person other than clients of Sterling Investment Management, Inc.

Ms. Martinez does not receive additional compensation for providing advisory services to any person other than clients of Sterling Investment Management, Inc.

## **Item 6 – Supervision**

Crandall L. Smith, Chief Operating Officer and Chief Compliance Officer, is responsible for supervising Ms. Martinez. Mr. Smith's phone number is 520.293.3311 and email address is CSmith@SterlingInvestor.com.

Ms. Martinez is a member and participant of the Investment Policy Committee where investment and policy ideas are discussed as a group prior to delivering investment advice to clients.