



DAVIDSON

FIXED INCOME MANAGEMENT

Part 2A of Form ADV: *Firm Brochure*

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March 31, 2015

This Brochure provides information about the qualifications and business practices of Davidson Fixed Income Management, Inc. If you have any questions about the contents of this Brochure, please contact us at 800-942-7557.

The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Registration as an investment adviser with the Securities and Exchange Commission does not imply a certain level of skill or training.

Additional information about Davidson Fixed Income Management, Inc. is also available on the SEC's website at www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 127844.

Item 2 Material Changes

Davidson Fixed Income Management, Inc. updated its last annual Form ADV Part 2A Firm Brochure (“the Brochure”) on December 15, 2014. This Brochure dated March 31, 2015 contains the following material changes from the last annual update.

- Effective March 31, 2015, SeaCap Investment Advisors began to operate as a division of Davidson Investment Advisors, Inc. SeaCap Investment Advisors formerly operated as a division of Davidson Fixed Income Management Inc., which is also a wholly-owned subsidiary of D.A. Davidson Companies.

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Item 4 Advisory Business

This Brochure describes the investment advisory services offered by Davidson Fixed Income Management, Inc. (referred to as the “firm” or “DFIM”). The purpose of this Brochure is to describe and disclose the services, fees, potential conflicts of interest, and other necessary information clients should consider prior to becoming a client. The information contained in this Brochure is current as of the date of this Brochure and is subject to change at DFIM’s discretion. Please retain this Brochure for your records.

About DFIM

DFIM is a SEC-registered investment adviser with its principal place of business located in Denver, Colorado. DFIM is a wholly-owned subsidiary of D.A. Davidson Companies, a financial services holding company. D.A. Davidson Companies is an employee-owned company. D.A. Davidson Companies other subsidiaries include: D.A. Davidson & Co., a full-service investment firm, which is a dually registered broker dealer and investment adviser; Davidson Investment Advisors, Inc., an asset management firm; and D.A. Davidson Trust Company, a wealth management trust company.

DFIM began conducting business in 2004 under the name Kirkpatrick Pettis Capital Management, Inc. Effective January 1, 2005, D.A. Davidson Companies purchased all of the stock of Kirkpatrick Pettis Capital Management, Inc. and shortly thereafter, the firm changed its name and began to conduct business under the name Davidson Fixed Income Management, Inc. The firm still conducts a limited business with respect to its mutual fund sub-advisory work as Davidson Fixed Income Management, Inc. doing business as Kirkpatrick Pettis Capital Management.

Types of Advisory Services

DFIM offers investment advisory services to public entities and other clients such as non-profits, banks and corporations that desire investments in fixed income securities that provide safety of principal, meet certain liquidity requirements, and will result in a competitive market rate of return.

DFIM offers the following four types of advisory services, each of which is described below:

Separately Managed Account (“SMA”) Services

DFIM offers customized fixed income portfolio management services to a broad array of public entity clients such as state and local governments, non-profit entities and bank clients. This service is tailored to the specific needs of each client and may include:

- portfolio and cash management services including bond proceeds investing;
- assistance with investment policy and procedure creation and review;
- cash flow analysis;
- review of bank services and fees;
- assistance with the establishment of custodial relationships; and
- investment reporting.

SMA services are offered on both a discretionary and non-discretionary basis. Clients may impose reasonable limitations or restrictions on investing in certain securities or types of securities. Any such limitations must be in writing.

DFIM's investment recommendations are not limited to any specific product but are generally limited to advice regarding short-term fixed-income investments. The investments may include government and government agency debt, corporate bonds, commercial paper, certificates of deposit, money market mutual fund shares, mortgage-backed and asset-backed instruments and local government investment pools, among others.

Because some types of investments involve certain additional degrees of risk, they will only be implemented or recommended when consistent with the client's stated investment policy, objectives, tolerance for risk, liquidity and suitability.

Consulting Services

DFIM offers investment consulting and portfolio review services to public entity clients such as state and local governments, non-profit entities and bank clients who have an established internal investment program but wish to have the benefit of a third party review of its internal investment practices.

This service involves the delivery of a quarterly report to each consulting client that focuses on the client's holdings, any gains or losses as well as a review of the portfolio against a designated benchmark or client investment policy or strategy. In addition, DFIM's Portfolio Managers are available to consult with clients regarding changes to their portfolio(s) including their decisions to buy, sell or hold depending on market conditions as well as the liquidity needs and risk tolerance of the client.

DFIM's investment recommendations are not limited to any specific product or service but are generally limited to advice regarding short-term fixed-income investments. The investments may include government and government agency debt, corporate bonds, commercial paper, certificates of deposit, money market mutual fund shares, mortgage-backed and asset-backed instruments and local government investment pools, among others.

Local Government Investment Pool ("LGIP") Services

DFIM serves as the investment adviser and administrator to Colorado Surplus Asset Fund Trust ("CSAFE"), a Colorado local government investment pool. CSAFE is authorized by Colorado State Statutes and is regulated by the Colorado Division of Securities and is structured to meet the daily liquidity needs of local governments. In our role as investment adviser we work to manage the portfolio in accordance with Colorado State Statutes and in accordance with Standard and Poors Corporation's guidelines for AAAM rated stable net asset value government investment pools.

We manage CSAFE on a discretionary basis and the investments may include government and government agency debt, corporate bonds, commercial paper, certificates of deposit, money market mutual fund shares, mortgage-backed and asset-backed instruments and other money market instruments allowable under Colorado State Statute.

In addition to acting as investment adviser to CSAFE, we all act as administrator for CSAFE. In our

role as administrator, we are responsible for maintaining all participant recordkeeping including the maintenance of separate accounts for each participating entity; recording individual transactions and totals of all investments; arranging for the redemptions of shares by participants, providing confirmation of all transactions, purchases and redemptions; and other activities that are customarily performed by an account administrator.

As of March 31, 2015, CSAFE had assets in the amount of \$1,595,265,083.

Mutual Fund Sub-Advisory Services

DFIM, doing business as Kirkpatrick Pettis Capital Management, serves as the sub-advisor to the Tax Free Fund of Colorado and to the Tax Free Trust of Oregon, both of which are municipal bond mutual funds, registered with the SEC. In our role as sub-advisor we provide portfolio management services on a discretionary basis to the funds' investment adviser, Aquila Investment Management, LLC. Both of these mutual funds invest in municipal bonds issued by state, county or local governments located in each respective mutual fund's state. As of March 31, 2015, the two Aquila Funds had assets in the amount of approximately \$844,600,000.

Assets Under Management

As of March 31, 2015, DFIM managed \$3,804,780,286 in assets on a discretionary basis, including CSAFE and mutual fund sub-advisory services, and \$958,047,361 in assets on a non-discretionary basis.

Item 5 Fees and Compensation

SMA Advisory Fees. Our fees are fully negotiable and are written into each advisory contract. Our fees generally range from 3.5 to 20 basis points on the account asset value of the portfolio managed. Fees are typically billed in arrears either on a monthly or a quarterly basis depending on the particular client. Not included in the calculation of assets under management are any funds that the client may hold in a LGIP advised by DFIM (e.g., CSAFE)

Advisory fees are calculated in one of two ways depending on the client's preference. The first way is on an asset under management basis. The market value of the assets in the account (including accrued interest), including cash or its equivalent held for investment, on the last business day of the applicable month calculated and a basis point fee is applied. However, if assets are added to or withdrawn from the client's account during the month and the cumulative net addition to or withdrawal from the account during the month is 10% or more of the market value of the assets in the account at the beginning of the month, then the fee will be determined by the average market value of the assets in the account for the month by the fee set forth in the advisory contract. The second way is on a fixed fee basis, which is not tied to fluctuating assets under management.

The value of assets in the client's account is generally determined by DFIM. DFIM determines the value of the assets in the client's account by obtaining prices from third party quotation sources. If the third party pricing source does not provide a price for an account asset, DFIM relies upon the value for the asset reported by the client's third party custodian. DFIM does not conduct an in-depth review of valuation information provided by third party quotation services or custodians, and we do not verify or

guarantee the accuracy of such information. The prices obtained by DFIM from the third party quotation services it uses may differ from prices that could be obtained from other sources.

Clients may choose to pay for advisory services by either allowing DFIM to directly debit its advisory fees from its account or direct DFIM to invoice them for fees incurred. With either option the client is provided with a monthly statement that includes an explanation of the fee and how it was calculated. Clients are not required to pay fees in advance.

Consulting Services Fees. Fees for consulting services are fully negotiable depending on the type of consulting engagement desired and are written into each consulting contract. Our consulting services fees are typically a fixed fee and are billed monthly, quarterly or annually depending on the particular client. Fees may be charged in advance or in arrears depending on the particular client.

LGIP Fees. Fees for LGIP services are fully negotiable and are written into each contract. Fees for CSAFE are tiered as follows: 18 basis points for assets under management less than \$200 million and 15 basis points for assets greater than \$200 million. Fees are billed in arrears on a monthly basis. Due to the prevalent interest rate environment in money markets, DFIM has, and expects to continue to waive a portion of the contractual LGIP fees. As of November 1, 2014, DFIM waived 6.6 basis points of the contractual fee schedule.

Mutual Fund Sub-Advisory Fees. Fees for mutual fund sub-advisory services are fully negotiable and written into each contract. Fees for the Tax Free Fund of Colorado are an annualized fee equal to 0.20% of the assets in the portfolio. Fees for the Tax Free Trust of Oregon are based on the assets in the fund as follows:

\$0 - \$400,000,000:	18 basis points
\$400,000,000 - \$1 billion:	16 basis points
Over \$1 billion:	14 basis points

Termination of the Advisory Relationship: A client agreement may be canceled at any time, by either party, for any reason upon receipt of 30 days written notice or 60 days written notice in the case of LGIPs and Mutual Fund Sub-Advisory Services. In the unlikely event that fees are paid in advance of services provided, upon termination of the agreement, any prepaid, unearned fees will be promptly refunded. In calculating a client's reimbursement of fees, we will pro-rate the reimbursement according to the number of days remaining in the billing period.

Mutual Fund Fees (12b-1 Fees): All fees paid to DFIM for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund directly, without our services. In that case, the client would not receive the services provided by our firm which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review

both the fees charged by the funds and our fees to fully understand the total amount of fees they are paying as they evaluate the advisory services DFIM is providing. In addition, DFIM may receive 12b-1 fees from mutual fund companies for the placement of client funds with their fund company.

Additional Fees and Expenses: In addition to our advisory fees, clients are also responsible for the fees and expenses charged by custodians or safekeeping agents. Please refer to the "Brokerage Practices" section (Item 12) of this Brochure for additional information.

A client also bears the costs of mark-ups, mark-downs, and spreads charged by broker-dealers in connection with the purchase and sales of certain securities (such as fixed income securities) because such costs are inherently reflected in the price the client pays or receives for such securities.

Advisory Fee Changes. Any increases to a client's fee or fee schedule would be done by mutual agreement of the parties and evidenced in either an amendment to the existing contract or through the execution of a new contract.

Advisory Fees in General. Advisory fees may vary among DFIM clients based upon a number of factors, including anticipated level of trading activity, size of the account, types of investments, nature of related services provided, and length of the advisory relationship with the client.

During a prospective client's consideration of the investment programs described in this Brochure, the prospective client should be aware that these services may cost more or less than purchasing the actual services separately from other advisors or broker-dealers.

The factors that should be considered by a prospective client include the size of the portfolio, the type of investments to be managed, commission costs and custodial expenses (if any), the anticipated level of trading activity and the amount of advisory fees charged for managing the client's portfolio.

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

DFIM does not accept performance-based fees nor does it engage in side-by-side management.

Item 7 Types of Clients

DFIM predominantly offers its services to public entity clients, such as counties, cities, school districts and other state political subdivisions, but may offer its services to other types of clients such as: banks or thrift institutions; charitable organizations; corporations; non-profit 501c(3) corporations or other business entities.

In general, DFIM requires an advisory account to have a minimum account value of \$5,000,000. This amount is negotiable, depending on the circumstances of the client. There are no account minimum requirements for clients engaging DFIM to provide consulting services.

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

Methods of Analysis and Investment Strategies: DFIM's disciplined, fundamental investment process seeks to satisfy the client's investment objectives of principal preservation and liquidity, while achieving a market rate of return. The goal of the overall investment strategy will emphasize the importance of reducing liquidity risk and interest rate risk while maintaining a diversified portfolio of allowable investments. An analysis of each client's allowable investments, risk tolerance and liquidity requirements will determine the maturity and security make-up of each portfolio.

DFIM uses a combination of quantitative and fundamental analysis when selecting securities for a client's account. DFIM utilizes an investment style that blends several different market analysis techniques including: duration management, yield curve analysis, sector analysis and security selection.

Information used to select portfolio investments include, among others, regulatory filings and company-issued literature (e.g., annual reports, prospectuses, press releases and other information), analyses by outside investment houses, government and Federal Reserve Bank publications, financial and other newspapers, journals and corporate ratings services (e.g., Moody's, Fitch, Standard & Poors), electronic data information sources (e.g., Bloomberg, Dow Jones, Reuters) and computer software used in measuring the duration of portfolios.

Using strategies developed and implemented by the Portfolio Managers, DFIM strives to produce returns consistently at-or- above-benchmark returns while minimizing risk. Investment portfolios are tailored to fit each client's unique cash flow needs and risk tolerance. Portfolio investments may include government and government agency debt, corporate bonds and cash equivalents including local government investment pools, depending on the clients specific investment policy. Generally, each portfolio security will be "investment grade" (though, at times, non-investment grade securities may be purchased) as rated by at least one nationally recognized rating organization, at the time of the purchase. The securities purchased generally have a maturity that is less than 5 years.

DFIM may invest client assets in securities of investment companies, such as money market funds, mutual funds and other investment pools that invest in fixed income securities.

Risk of Loss. Risk is inherent in any investment in securities and DFIM does not guarantee any level of return on a client's investments. There is no assurance that a client's investment objectives will be achieved. A DFIM client may be subject to the risks described below.

- **Management Risks:** Preservation of principal is a primary investment objective of most client portfolios managed by DFIM. At times, DFIM may purchase investment securities that have the potential for market values to fluctuate. Subsequent market events and conditions may adversely affect the value of client portfolios and could result in client portfolios earning a less than desired return and potential loss of principal if sold prior to stated maturity. DFIM monitors client portfolios daily and may rebalance client portfolios as a means to mitigate risk.
- **Bond Market Risks:** A bond's market value is affected significantly by changes in interest rates. Generally, when interest rates rise, the bond's market value declines and when interest rates decline, its market value rises. Generally, the longer a bond's maturity, the greater the

interest rate risk and the higher its yield. Conversely, the shorter a bond's maturity, the lower the interest rate risk and the lower its yield. Credit Quality Risks: Individual issues of fixed-income securities are subject to the credit risk of the issuer. Therefore, the underlying issuer may experience unanticipated financial problems and may be unable to meet its payment obligations. Bonds received the lowest investment grade rating or a high yield ("junk bonds") rating may have speculative characteristics and, compared to higher grade securities, may have a weakened capacity to make principal and interest payments due to changes in economic conditions or other adverse circumstances. Ratings agencies such as Moody's, Fitch and Standard & Poors provide ratings on bonds based on their analyses of information they deem relevant. Ratings are essentially opinions or judgments of the credit quality of an issuer and may prove to be inaccurate. In addition, there may be a delay between events or circumstances adversely affecting the ability of an issuer to pay interest and/or repay principal and a rating agency's decision to downgrade a security.

- **Liquidity Risks:** Liquidity risk is the risk that certain securities may be difficult or impossible to sell at the time and price that DFIM would like to sell. DFIM may have to accept a lower price, sell other securities or forego an investment opportunity, any of which may have a negative effect on the management or performance of client portfolios. The liquidity of a particular security depends on the strength of demand for the security, which is generally related to the willingness of broker-dealers to make a market for the security as well as the interest of other investors to buy the security. During significant economic and market downturns and periods in which financial services firms are unable to commit capital to make a market in, or otherwise buy, certain debt securities, DFIM may experience challenges in selling such securities at optimal prices.
- **Government Obligations Risks:** DFIM may invest client assets in securities issued, sponsored or guaranteed by the U.S. government, its agencies and instrumentalities. However, no assurance can be given that the U.S. government will provide financial support to U.S. government-sponsored agencies or instrumentalities where it is not obligated to do so by law. For instance, securities issued by the Government National Mortgage Associations ("Ginnie Mae") are supported by the full faith and credit of the United State. Securities issued by the Federal National Mortgage Associations ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") have historically been supported only by the discretionary authority of the U.S. government. Securities issued by the Student Loan Marketing Association ("Sallie Mae") are supported only by the credit of that agency. While the U.S. government provides financial support to various U.S. government-sponsored agencies and instrumentalities, such as those listed above, no assurance can be given that it will always do so.
- **Money Market Fund and LGIP Risks:** An investment in a money market fund or LGIP is not insured or guaranteed by the FDIC or any other government agency. Although money market funds and LGIPs seek to preserve the value of client's investment at \$1.00 per share, there can be no assurance that will occur, and it is possible to lose money should the fund's net asset value per share fall. In some circumstances, money market funds and LGIPs may be forced to

cease operations when the value of a fund drops below \$1.00 per share. In that event, the fund's holdings may be liquidated and distributed to the fund's shareholders. This liquidation process could take time to complete. During that time, the amounts a client has invested in the money market fund or LGIP would not be available for purchases or withdrawals.

- **Recent Market Events:** U.S. and international markets have experienced extreme price volatility, reduced liquidity, credit downgrades, increased likelihood of default and valuation difficulties in recent years. As a result, many of the above risks may be increased. Continuing market problems may have adverse effects on client portfolios.
- **Tax Risks:** Municipal securities may decrease in value during times when tax rates are falling. Since interest income on municipal obligations is normally not subject to regular federal income taxation, the attractiveness of municipal obligations in relation to other investment alternatives is affected by changes in federal income tax rates applicable to, or the continuing federal tax-exempt status of, such interest income. Any proposed or actual changes in such rates or exempt status, therefore, can significantly affect the liquidity, marketability and supply and demand for municipal obligations, which would in turn affect DFIM's ability to acquire and dispose of municipal obligations at desirable yields and price levels. Investment in tax-exempt securities poses additional risks. In many cases, the Internal Revenue Service has not ruled on whether the interest received on a tax-exempt obligation is tax-exempt, and accordingly, purchases of these securities are based on the opinion of bond counsel to the issuers at the time of issuance. DFIM relies on these opinions and will not independently review the basis for them.
- **Municipal Obligation Risks:** Clients may have their portfolios invested in municipal obligations depending on state statutes and investment policy. As a result, changes in economic, business or political conditions relating to a particular state or types of projects may have a disproportionate impact on client's portfolio value.

There are no guarantees when investing in securities and there may be a loss in value of your portfolio. Our advisory agreements require that our clients keep us informed of any change in circumstances in order to help us maintain client portfolios compatible with their tolerance for risk.

Item 9 Disciplinary Information

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

Our firm has no reportable disciplinary events to disclose.

Item 10 Other Financial Industry Activities and Affiliations

DFIM is a wholly-owned subsidiary of D.A. Davidson Companies, a financial services holding company headquartered in Great Falls, Montana. In addition to DFIM, D.A. Davidson Companies has three subsidiaries: D.A. Davidson & Co., Davidson Investment Advisors, Inc., and D.A. Davidson Trust Company. D.A. Davidson & Co. is a broker-dealer registered as such with FINRA (Financial Industry Regulatory Authority) and a SEC Registered Investment Adviser. Davidson Investment

Advisors, Inc. is a SEC registered investment adviser. D.A. Davidson Trust Company is a federal savings bank. Certain management personnel of DFIM are licensed as registered representatives of D.A. Davidson & Co. As registered representatives of D.A. Davidson & Co., these individuals may have brokerage clients for which they receive compensation based on securities transactions for their brokerage clients. None of these brokerage clients is an advisory client of DFIM. Additionally, Davidson Investment Advisors, Inc. employs two portfolios from DFIM to manage a select group of portfolios within their SeaCap division. They are located in Denver, Colorado and Lake Oswego, Oregon. As noted above, DFIM serves as a sub-adviser to two SEC registered mutual funds. DFIM does not believe these relationships create any material conflicts of interest with any of the firm's other clients.

Davidson Investment Advisers, Inc., DFIM's affiliate, is the investment adviser to Davidson Mutual Funds, an investment company registered under the Investment Company Act of 1940. U.S. Bancorp Fund Services, LLC acts as the Fund's administrator and provides fund accounting and transfer agency services. For additional information about the Davidson Mutual Funds, a Prospectus and Statement of Additional Information are available on-line at: davidsonmutualfunds.com.

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

DFIM has adopted a Code of Ethics which sets forth high ethical standards of business conduct that required of our employees, including compliance with applicable federal securities laws.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code also provides for oversight, enforcement and recordkeeping provisions.

Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Our firm and/or individuals associated with our firm may buy or sell for their personal accounts securities identical to or different from those recommended to our clients. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client.

It is the expressed policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account, thereby preventing such employee(s) from benefiting from transactions placed on behalf of advisory accounts.

As these situations represent actual or potential conflicts of interest to our clients, we have established the following policies and procedures for implementing our firm's Code of Ethics, to ensure our firm complies with its regulatory obligations and provides our clients and potential clients with full and fair

disclosure of such conflicts of interest:

- No employee of our firm may put his or her own interest above the interest of an advisory client.
- No principal or employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is a result of information received as a result of his or her employment unless the information is also available to the investing public.
- It is the expressed policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account. This prevents such employees from benefiting from transactions placed on behalf of advisory accounts.
- Our firm requires prior approval for any IPO or private placement investments by related persons of the firm.
- We maintain a list of all reportable securities holdings for our firm and anyone associated with this advisory practice that has access to advisory recommendations ("access person"). These holdings are reviewed on a regular basis by our firm's Chief Compliance Officer or his/her designee.
- We have established procedures for the maintenance of all required books and records.
- All of our employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
- We require delivery and acknowledgement of the Code of Ethics by each supervised person of our firm.
- We have established policies requiring the reporting of Code of Ethics violations to our senior management.
- Any individual who violates any of the above restrictions may be subject to termination.

DFIM's Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

As disclosed in the preceding section of this Brochure (Item 10), certain employees of our firm are separately registered as securities representatives of D.A. Davidson & Co. Please refer to Item 10 for a detailed explanation of these relationships and important conflict of interest disclosures.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy from your Portfolio Manager or by calling us at 800-617-2501.

Item 12 Brokerage Practices

Custodial Relationships. It is DFIM's policy that all advisory accounts be custodied by a non-affiliated

third party. To that end, DFIM portfolio managers are available to assist clients with evaluating their custody/safekeeping relationship(s).

Discretionary Accounts. For accounts managed on a discretionary basis, DFIM requires these clients to provide us with written authority to determine the broker dealers to be used, the securities to be purchased or sold and the commission costs that will be charged to execute these transactions.

These clients must include any limitations on this discretionary authority in this written authority statement. Clients may change/amend these limitations as required. Such amendments must be provided to us in writing.

Soft-Dollar Arrangements. It is the current policy of DFIM not to utilize any research or other services on a soft-dollar basis. Accordingly, DFIM does not receive any soft-dollar benefits.

Cross Transactions. DFIM in general does not engage in agency cross transactions. In rare instances, exceptions may be made with the prior written approval of the Portfolio Manager's designated supervisor and either the Compliance or Legal Departments. Upon such approval, an agency cross transaction is permitted only if certain conditions are met under Advisers Act rules including prior written consent, client disclosures regarding trade information and any other requirements of SEC Rule 206(3)-2(b).

Directed Brokerage. When circumstances allow, our Portfolio Managers solicit quotes from a minimum of three brokers in order to deliver the best price for the client given prevailing market conditions. DFIM maintains a list of approved broker dealers or the list of approved broker dealers may be directed by the client. However, we always advise the client to purchase the security from the broker with the best price.

When the client directs brokerage, we utilize the client's list of approved broker dealers. In some circumstances we may not be able to achieve the most favorable execution of client directed transactions and directing brokerage may cost the clients more money.

When DFIM directs brokerage, it does so through a list of approved broker dealers. DFIM's primary considerations for selecting brokers include the following: efficient execution; efficient trade settlement; above minimum net capital requirements (\$10,000,000); and a 10 year trading history. This list of approved broker dealers is reviewed by DFIM Portfolio Managers periodically to determine whether broker dealers should be added to or removed from this list.

Aggregated Block Transactions. DFIM may aggregate advisory account transactions for efficient execution purposes, where appropriate. Any such aggregated transactions may be allocated among advisory client accounts on either a pro-rata or some other equitable basis. Trade allocation procedures may result in advisory clients paying higher or lower prices than if the transactions were not aggregated and allocated.

Item 13 Review of Accounts

DFIM's Portfolio Managers review DFIM's client accounts. Portfolio Managers generally perform daily reviews on transactions in each client account as well as for maturing securities and opportunities to reposition a portfolio due to a changing market. The Portfolio Manager generally reviews reports

that document each account's performance compared to the performance of a relevant benchmark index at least monthly. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment.

In addition, periodic meetings are held by the portfolio management teams to also discuss the direction of the market and if there are any changes that should be recommended to clients as a result of a changing market.

In addition to the monthly statements and confirmations of transactions that clients receive from their custodian or safekeeping agent, we provide monthly and quarterly reports. These reports contain the client account's holdings, yield, cash flow, gains and losses, and monthly interest earnings. DFIM may provide additional information in the investment summary report to meet specific reporting needs of a client as the client and DFIM may agree.

A client's account performance may be compared to a benchmark market index or indices. Benchmarks shown in performance reports are for information purposes only. DFIM's selection and

use of benchmarks is not a promise or guarantee that the performance of a client's account will meet or exceed the stated benchmark.

Item 14 Client Referrals and Other Compensation

Client Referrals

DFIM may from time to time pay referral fees to independent persons or firms ("Solicitors") for introducing clients to us. Whenever DFIM pays a referral fee, we require the Solicitor to provide the prospective client with a copy of this Brochure and a separate disclosure statement that includes the following information: the Solicitor's name and relationship with our firm; the fact that the Solicitor is being paid a referral fee; the amount of the fee; and whether the fee paid to us by the client will be increased above our normal fees in order to compensate the Solicitor.

As a matter of firm practice, the advisory fees paid to us by clients referred by solicitors are not increased as a result of any referral.

Other Compensation

It is DFIM's policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

Item 15 Custody

We previously disclosed in the "Fees and Compensation" section (Item 5) of this Brochure that our firm may directly debit advisory fees from client accounts. Because DFIM can deduct advisory fees directly from its clients' accounts, when so authorized by the clients, it is technically considered to have "custody" within the meaning of Rule 206(4)-2.

As part of the billing process, the client's custodian or safekeeping agent is advised of the amount of the fee to be deducted from that client's account. In addition, the amount of the fee deducted is included in

the client's monthly or quarterly advisory statements from DFIM. On at least a quarterly basis, the custodian is required to send to the client a statement showing all transactions within the account during the reporting period.

Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they believe that there may be an error in their statement.

In addition to the periodic statements that clients receive directly from their custodians, we also send account statements directly to our clients on a monthly and quarterly basis. We urge our clients to carefully compare the information provided on these statements to ensure that all account transactions, holdings and values are correct and current.

Item 16 Investment Discretion

Some clients hire us to provide discretionary asset management services, in which case we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission. Having discretion affords our Portfolio Managers the ability to act quickly and provide clients with potentially better prices and reduce risks, especially in a fluctuating market. Our discretionary authority includes the ability to do the following without contacting the client:

- Determine the security to buy or sell; and/or
- Determine the amount of the security to buy or sell

Clients give us discretionary authority when they sign a discretionary agreement with our firm, and may limit this authority by giving us written instructions and obtaining DFIM's agreement concerning any limitation. Clients may also change/amend such limitation by one again providing us with written instructions. DFIM will evaluate the practicality of the restrictions and may determine that some limitations cannot effectively be implemented. Clients, of course, have the option in this case of rescinding discretionary authority entirely.

Item 17 Voting Client Securities

DFIM does not typically recommend or select for client accounts securities that have voting rights. However, by signing a separately managed account agreement with DFIM, clients may authorize and delegate the right to DFIM to vote proxies with respect to the securities held in their accounts.

DFIM has adopted written policies and procedures that are reasonably designed to ensure that it votes client securities in the best interests of clients. Those procedures address material conflicts of interest that may arise between DFIM's interests and those of its clients. DFIM considers each proposal regarding a fixed income security on a case by case basis. The portfolio managers for the client's account will generally vote proxies with respect to fixed income securities for client accounts based upon DFIM's knowledge and understanding of the situation, market environment as well as any other

relevant facts and circumstances at the time of the vote, and with the intent to promote what DFIM believes is good corporate governance. DFIM will review the proxy to determine whether there is a material conflict of interest. If no material conflict exists, DFIM will vote the proxy according to the portfolio managers' recommendation. If a material conflict exists, DFIM will follow the conflict procedures with respect to proxy voting described below.

The proxy voting policies and procedures also address instances in which DFIM's interests may appear to conflict with client interests, such as when DFIM or an affiliate is managing or administering (or seeking to manage or administer) a corporate retirement, pension or employee benefit plan or providing (or seeking to provide) brokerage, underwriting, insurance, financial advisory or investment banking services to a company whose management is soliciting proxies. In such instances, there may be a concern and that DFIM would be inclined to vote in favor of management because of DFIM's relationship or pursuit of a relationship with the company. DFIM takes on of the following steps to address these potential conflicts: (1) refers the proxy to the client or to a fiduciary of the client for voting purposes; (2) suggests that the client engage another party to determine how the proxy should be voted; or (3) obtain the client's direction to vote the proxy after disclosing the conflict to the client. DFIM's investment advisory compliance department is responsible for overseeing the operation of the proxy voting policies and procedures.

DFIM generally does not permit clients to direct particular votes once they have granted DFIM discretionary voting authority. Clients wishing to vote securities may do so by terminating the discretionary authority granted to DFIM.

DFIM does not participate in securities class action claims or claims arising from bankruptcy. At a client's request, it will forward information about such claims to the client.

Item 18 Financial Information

DFIM is not aware of any financial condition that is reasonable likely to impair our ability to meet our contractual obligations.

Under no circumstances do we require or solicit payment of fees in excess of \$1,200 per client more than six months in advance of services rendered. Therefore, we are not required to include a balance sheet of DFIM's most recent fiscal year.

Davidson Fixed Income Management, Inc. has not been the subject of a bankruptcy petition at any time during the past 10 years.