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## **Form ADV, Part 2A Brochure**

March 17, 2015

This brochure provides information about the qualifications and business practices of Telos Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at (858) 271-6350 or [info@telos.com](mailto:info@telos.com). 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.

Any reference to or use of the terms “registered investment adviser” or “registered,” does not imply that Telos Capital Management, Inc. or any person associated with Telos Capital Management, Inc. has achieved a certain level of skill or training. Additional information about Telos Capital Management, Inc. is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## ITEM 2 - MATERIAL CHANGES

The purpose of this page is to inform you of any material changes to our brochure. If you are receiving this brochure for the first time this section may not be relevant to you.

Telos Capital Management, Inc. ("TCM") reviews and updates our brochure at least annually to confirm that it remains current. We have not made material changes since the annual update to our brochure, dated March 10, 2014.

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## ITEM 4 - ADVISORY BUSINESS

### Description of Advisory Firm

Telos Capital Management, Inc. (“TCM,” “we,” “our,” or “us”) is a privately owned corporation headquartered in San Diego, CA. TCM is registered as an investment adviser with the U.S. Securities and Exchange Commission.

Stefan Meierhofer originally co-founded A&M Investment Management in January 2003. In January 2009, the firm incorporated and changed its name to Telos Capital Management, Inc. In December 2012, Stefan Meierhofer became TCM’s sole owner. In 2014, Jonathan P. Fairchild acquired a minority interest in the firm.

### Advisory Services Offered

TCM offers the following services to advisory clients:

#### Investment Management Services

TCM provides investment management services to individual investors, trusts, estates, charitable organizations, participants of retirement plans, small businesses, and high-net-worth individuals. Investment portfolios are generally managed on a fully discretionary basis in accordance with the particular investment strategy selected by the client. Although TCM exercises investment discretion for each account that it advises, clients are given the ability to impose reasonable restrictions on the management of their accounts, including specific securities or security types.

TCM actively manages client portfolios on an ongoing basis and rebalances them when, in TCM’s judgment, rebalancing is warranted in light of market conditions and/or changes in clients’ circumstances. In constructing portfolios, the principles of asset allocation and security diversification guide our investment management process. Recommended asset allocation strategies take into consideration a client’s investment objectives, risk tolerance, time horizon, and constraints.

Clients who engage TCM to provide investment advisory services will be required to complete an Investment Management Agreement (IMA) and Client Profile. The IMA details the terms and conditions of the engagement and the scope of the services we will provide. The Client Profile provides TCM valuable personal information regarding the client’s financial situation and risk tolerance. This information is used in the design, implementation, and management of a client’s investment portfolio.

TCM offers two distinct programs of managing client accounts:

- TCM Legacy Portfolios
- Sherman Core Portfolios

Each of these programs is described in further detail under **Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss**, below.

Within the above programs, we primarily utilize the following investment types when making purchases in client accounts:

1. Equity securities, including stocks and foreign securities listed on US exchanges (ADRs) or foreign exchanges (ordinaries)
2. Fixed income securities, including corporate and government bonds, commercial paper, and certificates of deposit (CDs)
3. Exchange traded funds (ETFs)
4. Municipal securities
5. Money market funds and cash

Additionally, TCM's investment selections, depending on the individual investment objectives and needs of the client, may include:

1. Securities with equity and debt characteristics, including convertible bonds, preferred stocks or other preferred securities
2. Real estate investment trusts (REITs)
3. Mutual funds
4. Exchange traded notes (ETNs)
5. Closed-end funds
6. Unit investment trusts (UITs)
7. U.S. government securities
8. Mortgage-backed securities
9. High-yield debt
10. Treasury inflation-protected securities (TIPS)
11. Inflation-indexed bonds
12. Master limited partnerships (MLPs)

TCM may also occasionally offer advice regarding additional types of investments if they are appropriate to address the individual needs, goals, and objectives of the client or in response to client inquiry. We may offer investment advice on any investment held by the client at the start of the advisory relationship. We describe the material investment risks for many of the securities that we utilize under the heading ***Specific Security Risks*** in ***Item 8*** below.

We discuss our discretionary authority below under ***Item 16 - Investment Discretion***. For more information about the restrictions clients can put on their accounts, see ***Tailored Services and Client Imposed Restrictions*** in this item below. We describe the Fees charged for investment management services below under ***Item 5 - Fees and Compensation***.

### ***Financial Planning Services***

TCM does not generally provide comprehensive financial planning services. However, as part of our overall advisory services, we may offer financial or retirement planning related advice that is general in nature or focused on particular areas of interest or need. That may involve providing advice on such subjects as saving for retirement, planning for distributions in retirement, goal setting, benefit considerations, or other needs as identified by client. Some plans may be delivered in written format. Services do not include income tax, gift, or estate tax returns, or preparation of any legal documents.

TCM does not receive separate compensation for financial planning related services, and implementation of the recommendations is at the client's discretion and their responsibility. Financial planning services are not ongoing in nature and clients must understand that their overall situation or needs may not be fully addressed due to these limitations.

### *Limitations on Investments*

In some circumstances, TCM's advice may be limited to certain types of securities.

#### *Limitation by Plan Sponsor/Employer*

When we provide services to participants in an employer-sponsored plan, the participant may be limited to investing in securities included in the plan's investment options. Therefore, TCM can only choose from among the available options and will not invest the client's account in other securities, even if there may be better options elsewhere.

#### *Mutual Fund Limitations*

TCM limits selections of mutual funds to no load funds or load-waived equivalents.

#### *Limitation by Client*

TCM may also limit advice based on certain client-imposed restrictions. For more information about the restrictions clients can put on their accounts, see ***Tailored Services and Client Imposed Restrictions*** in this Item below.

### *Non-Managed Assets*

TCM may offer securities trading activities for non-managed positions held within in a client's managed account, acting as an intermediary between the client and the custodian. We do not provide investment advice regarding that portion of the client's managed account designated as non-managed assets nor do we provide opinions as to the merits of any non-managed asset held in the account. We also do not make any judgments as to the appropriateness of assumed risk or suitability of any non-managed investment given the client's situation. TCM offers this service at no charge and at our discretion, in consideration of the client's other assets that we manage.

## **Tailored Services and Client Imposed Restrictions**

TCM manages client accounts based on the investment strategy the client chooses, as discussed below under ***Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss***. TCM applies the selected strategy for each client, based on the client's individual circumstances and financial situation. We make investment decisions for clients based on information the client supplies about their financial situation, goals, and risk tolerance. Our investment choices may not be suitable if the client does not provide us with accurate and complete information. It is the client's responsibility to keep TCM informed of any changes to their investment objectives or restrictions.

Once the client chooses a certain strategy, clients may impose reasonable restrictions on the account, such as when a client needs to keep a minimum level of cash in the account, or limitations on the purchase or sale of certain securities, types of securities, or industry sectors. TCM reserves the right to



not accept and/or terminate management of a client's account if we feel that the client-imposed restrictions are unreasonable and would limit or prevent us from meeting or maintaining the client's investment strategy.

## **Wrap Fee Programs**

Historically, TCM offered participation in a wrap fee program through Envestnet Asset Management, Inc.'s Managed Assets Program ("MAP") to clients that direct brokerage and custody of assets to TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade"), Member SIPC.

TCM clients that chose to participate in MAP continue paying an all-inclusive ("wrap") fee for separately managed accounts in the program. TCM does not charge advisory fees for client assets managed through MAP. Instead, TD Ameritrade compensates us by paying TCM a portion of the wrap fee that the client pays to TD Ameritrade. Clients may receive comparable services from other sources for fees that are lower or higher than those charged for participating in MAP.

TCM no longer participates in the MAP program for new clients and does not itself sponsor or act as portfolio manager in any wrap-fee program.

## **Assets Under Management**

TCM manages client assets in discretionary accounts on a continuous and regular basis. TCM also offers non-discretionary management through participation in the wrap fee program described above. As of 12/31/2014, the total amount of assets under our management was:

Discretionary Assets	\$ 345,748,621
Non-Discretionary Assets	\$ 571,417
 Total Assets	 \$ 346,320,038

## **ITEM 5 - FEES AND COMPENSATION**

### **Fee Schedule**

#### *Investment Management Services*

TCM charges advisory fees for investment management services based on a percentage of the market value of the portfolio, per the following schedules:

#### *TCM Legacy Portfolios*

The annual management fee for our TCM Legacy Portfolios is generally 1.00%.

#### *Sherman Core Portfolios*

Depending on the types of investments under management and the size and complexity of the client's account(s), the following fee schedules apply to our Sherman Core Portfolios:

**Category I:** For Individual Equities Core Portfolios of (i) individual equities (including REITS), (ii) closed-end mutual funds/ETFs and/or (iii) cash/money market funds, the following annual percentage fees apply:

<u>Range of Managed Assets</u>	<u>Annual Percentage Fee</u>
\$0 - \$199,999.99	2.00%
\$200,000 - \$299,999.99	1.75%
\$300,000 - \$999,999.99	1.50%
\$1,000,000 - \$4,999,999.99	1.25%
\$5,000,000 - \$9,999,999.99	1.10%
\$10,000,000+	0.85%

**Category O:** For Income and/or Stock Index fund Core Portfolio(s) of (i) open-end stock and bond mutual funds/ETFs, (ii) individual bonds (iii) REITS, and/or (iv) cash/money market funds, the following annual percentage fees apply:

<u>Range of Managed Assets</u>	<u>Annual Percentage Fee</u>
\$0 - \$199,999.99	1.00%
\$200,000 - \$299,999.99	0.85%
\$300,000 - \$999,999.99	0.70%
\$1,000,000 - \$4,999,999.99	0.60%
\$5,000,000 - \$9,999,999.99	0.55%
\$10,000,000+	0.50%

Once a client's Sherman Core Portfolio for a specific category (I or O) reaches a breakpoint, TCM bills all assets under management in that strategy at the lower rate.

Fees for all TCM portfolios are negotiable at our sole discretion and some accounts may be under different fee schedules honoring prior agreements. We also manage some family and related accounts, and small short-term cash management accounts, at no charge.

## **Billing Method**

### *Investment Management Services*

TCM's advisory fees are payable quarterly in advance at the beginning of each calendar quarter. We charge one fourth of the annual fee each quarter based on the market value of the client's portfolio as of the last day of the prior calendar quarter. The formula used for the calculation is as follows:  $(Annual\ Rate) \times (Total\ Assets\ Under\ Management\ at\ Quarter-End) / 4$ . For new client accounts, the first payment is a pro-rata calculation due upon execution of the advisory agreement. The calculation will take into consideration the number of days remaining in the quarter and the initial value of the portfolio. The formula used to calculate the initial advisory fee would be as follows:  $(Result\ of\ Quarterly\ Calculation) \times (Days\ Remaining\ in\ Quarter) / (Total\ Number\ of\ Days\ in\ Quarter)$ . We bill some accounts differently honoring prior agreements.

For advisory fee calculation purposes, a calendar quarter is a period beginning on January 1, April 1, July 1, or October 1 and ending on the day before the next quarter. A day is any calendar day including weekends and holidays. For new accounts, the number of days remaining in the quarter is the number of calendar days following the date a new account is funded.

Advisory fees are customarily withdrawn directly from the client's custodian account, but clients can choose to pay by check upon request. With client authorization, TCM will automatically withdraw TCM's advisory fee from the client's account held by an independent custodian. Typically, the custodian withdraws advisory fees from the client's account during the first month of each quarter based on TCM's instruction. All clients will receive brokerage statements from the custodian no less frequently than quarterly. The custodian statement will show the deduction of the advisory fee for those clients who authorize the advisory fees to be withdrawn directly from their custodian account.

TCM will send an invoice to all clients who choose not to have advisory fees withdrawn directly from their custodian account. The invoice is payable upon receipt and will include the fee calculation and amount due.

## **Other Fees and Expenses**

TCM's fees do not include custodian fees. Clients pay all brokerage commissions, stock transfer fees, and/or other similar charges incurred in connection with transactions in accounts, from the assets in the account. These charges are in addition to the fees client pays to TCM. See ***Item 12 - Brokerage Practices*** below for more information.

In addition, any mutual fund shares held in a client's account may be subject to deferred sales charges, 12b-1 fees, and other fund-related expenses. The fund's prospectus fully describes the fees and expenses. All fees paid to TCM for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds. Mutual funds pay advisory fees to their managers, which are indirectly charged to all holders of the mutual fund shares.

## **Termination**

### **Investment Management Services**

Either party may terminate the agreement upon thirty (30) days written notice to the other party. The client may terminate the agreement by writing TCM at our office. TCM will refund any prepaid, unearned advisory fees based on the effective date of termination. Upon termination of the agreement, we will send the client a prorated refund or credit their account for unearned advisory fees using the following formula:  $(Fees\ Paid) \times (Days\ Remaining\ in\ Quarter) / (Total\ Number\ of\ Days\ in\ Quarter)$ .

Terminations will not affect liabilities or obligations from transactions initiated in client accounts prior to termination. In the event the client terminates the investment advisory agreement, TCM will not liquidate any securities in the account unless specifically instructed by the client to do so in writing. In the event of client's death or disability, TCM will continue management of the account until we are notified of client's death or disability and given alternative instructions by an authorized party.

## **Other Compensation**

TCM does not accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

## **ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

TCM does not charge performance-based fees or other fees based on a share of capital gains on or capital appreciation of the assets of a client.

## **ITEM 7 - TYPES OF CLIENTS**

TCM provides investment management services to individual investors, trusts, estates, charitable organizations, participants of retirement plans, small businesses, and high-net-worth individuals.

## **Account Requirements**

Generally, TCM requires clients to maintain a minimum account size of \$250,000. We generally combine family accounts to meet the account size minimum. TCM may reduce or waive the account minimum requirements at our discretion.

## **ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **Methods of Analysis and Investment Strategies**

TCM believes that the key to successful investing lies in establishing and adhering to a solid long-term investment plan, and that diversification across multiple asset classes can optimize the risk and potential return of a portfolio. Diversification is based on the premise that different types of investments, or asset classes, generally react differently to various market events. Depending on a client's investment objectives, we may utilize multiple asset classes, investment styles, market capitalizations, sectors, and regions to provide diversification. TCM's investment process relies upon in-depth fundamental research to actively select securities for client accounts. Each security is evaluated on a set of criteria that are designed to identify investments that are priced at what we consider a discount to their fundamental intrinsic value. Within each investment category, TCM selects individual securities with characteristics that are most consistent with the client's objectives, risk tolerance, and tax considerations. We deal with any client restrictions on an account-by-account basis.

Client portfolios with a similar investment objectives and asset allocation goals may own different securities. Timing and tax factors also influence TCM's investment decisions. Clients who buy or sell securities on the same day may receive different prices.

### ***Investment Portfolios***

TCM offers two distinct programs of managing client accounts. Our methods of analysis and investment strategies for each style are as follows:

### *TCM Legacy Portfolios (the “Legacy Portfolios”)*

Legacy Portfolios are actively managed discretionary portfolios that seek long-term capital appreciation and preservation by investing in companies that we believe offer long-term, fundamental investment value. We base the investment methodology for Legacy Portfolios on fundamental principles of both value and growth investing. TCM makes investments in the Legacy Portfolios with the belief that asset allocation is a significant determinant of a portfolio’s return, and that periodic portfolio rebalancing can enhance returns and reduce the risk of loss. TCM monitors market conditions and relative asset values on an ongoing basis. Account management is guided by the stated objectives of the client and individual investor circumstances are considered to adjust client portfolios accordingly. TCM generally considers the tax impact of investment decisions in designing and managing client portfolios.

Within the TCM Legacy Portfolios, we offer seven distinct actively managed portfolio styles:

#### *Equity Strategies:*

##### *Telos Core Plus Equity*

This diversified portfolio seeks long-term capital appreciation by investing in companies that we believe offer fundamental investment value and is invested primarily in large-cap blue chip stocks. Portfolios usually include a satellite group of exchange traded funds (ETFs) to gain exposure to investment opportunities across a wide range of market capitalizations, asset classes, sectors, and geography.

##### *Telos Dividend Equity*

This diversified portfolio primarily seeks to provide total return from a combination of relatively attractive dividend yield with the potential for aggregate dividend income growth and long-term capital appreciation. This portfolio invests in a diversified selection of income generating securities of leading global companies across multiple asset classes, including equities, ETFs, real estate investment trusts (REITS), master limited partnerships (MLPs), preferred shares, and debt securities.

##### *Telos Global Core Plus ETF*

This diversified portfolio’s primary investment objective is to seek long-term capital appreciation through the exclusive use of ETFs. Investments are diversified by market capitalization, asset class, sector, and geography using a low cost approach. While the majority of the portfolio is invested in strategic assets, a portion is tactically managed to take advantage of what we deem to be strong market sectors and/or price anomalies.

##### *Telos Global Dividend ETF*

This diversified portfolio primarily seeks to obtain current income through the exclusive use of income generating ETFs. Investments are diversified by market capitalization, asset class, sector, and geography and typically include REITS and MLPs in an effort to provide total return from a combination of relatively attractive dividend yield and long-term capital appreciation.

#### *Fixed Income Strategies:*

##### *Telos Corporate Fixed Income*

This diversified portfolio typically consists of a conservative blend of high quality corporate bonds and is designed to provide reliable current income with a relatively low level of risk. Fixed income investments are typically considered to be less risky than equity investments as they historically have a lower

standard deviation but have also typically provided lower returns. Enhanced income strategies may be applied by including preferred shares as well as non-investment grade (junk) and convertible bonds.

#### Telos Municipal Fixed Income

This diversified portfolio primarily seeks to provide reliable current income that is generally exempt from U.S. federal income tax, and in some cases, state, and/or local income tax. As a secondary consideration, this strategy seeks to preserve capital. Investments include a blend of high quality, highly liquid municipal fixed income securities. This portfolio is designed for tax sensitive investors.

#### Telos Blended Fixed Income

This diversified portfolio consists of a blend of taxable and tax-free fixed income securities. It is designed for investors who seek to maximize current after-tax income and typically are in lower marginal tax brackets.

#### Strategic Asset Allocation Strategies:

Based on a client's needs, financial situation and objectives identified in the Client Profile questionnaire, the above listed portfolios may be used alone or in combination to match his/her specific investment objective and level of risk. TCM currently offers the following six selections for the Legacy Portfolios: Aggressive, Moderately Aggressive, Moderate Growth, Conservative, Defensive, and Fixed Income.

#### *Sherman Core Portfolios (the "Core Portfolios")*

Our Core Portfolios generally utilize three different types of investment portfolios, which combined, are designed for the client's investment objectives. These investment portfolios include:

##### Individual Equities Portfolio

Includes individual stocks, closed-end mutual funds, and ETFs.

##### Stock-Index Fund Portfolio

Includes broad-based open-end mutual funds, and/or ETFs.

##### Income Portfolio

Includes individual bonds, bond mutual funds or ETFs, and other income-oriented securities.

We describe each Core Portfolio in detail below.

Typically, our Core Portfolios remain fully invested, and we use cash and money market funds primarily to raise cash due to liquidity needs or market conditions. TCM opens an account for each type of Core Portfolio as needed to help achieve the client's investment objective. For example, if a client has \$1 million to invest and has a growth and income investment objective, TCM may open a \$700,000 account for the Individual Equities Portfolio and a second account of \$300,000 for the Income Portfolio; (*note: this example is for illustrative purposes only and should not be considered representative of an actual allocation*).

## Methods of Analysis for Selecting Securities

### *Legacy Portfolios*

As long-term investors, TCM seeks to own quality, growth-oriented companies that trade at reasonable valuations relative to their growth prospects. For our Legacy Portfolios, TCM relies primarily on internally generated research when making investment decisions. We also use independent third party research to supplement our own, such as Standard & Poor's, Morningstar, Value Line, Valuentum, and Applied Finance Group (AFG). Our principal sources of information include, but are not limited to, the public filings of companies with governmental authorities, companies' annual reports to shareholders, subscription research services, newspapers and the Internet.

While we primarily apply fundamental analysis to evaluate a security's value, we also employ technical factors in our strategies and analysis.

**Fundamental analysis** is an attempt to measure the intrinsic value of a security and typically involves analysis of financial statements, the general financial health of companies, and /or the analysis of management or competitive advantages of individual companies and their industry peers.

**Technical Analysis** involves the analysis of historic market data, including but not limited to price and volume. Our technical analysis focuses on the general direction of the equity markets and/or individual securities and is limited to timing of security transactions.

TCM carefully monitors and evaluates securities on a continual basis.

We base Legacy Portfolio investment decisions on a combination of **bottom-up** fundamental research, coupled with **top-down** macro-economic analysis. Top-down and bottom-up analyses are conducted simultaneously.

#### Bottom-up Analysis

Our bottom-up analysis is the primary means by which TCM selects individual equity investments. This process relies heavily upon fundamental analysis and examines the qualitative characteristics of companies in our research universe to identify what we feel are compelling high-quality investments. We examine a company's financials, management, business model, competitive position, and prospects for future growth. The resulting data is used to estimate a realistic "intrinsic value" of a security or asset class. We generally believe that fundamentally strong companies whose stocks trade below our estimate of "intrinsic value" offer an above-average return potential and provide investors with a margin of safety, helping them to reduce overall investment risk.

#### Top-down Analysis

Our top-down approach provides a "big picture" perspective and involves macro-economic analysis to monitor national and global economic and investment trends, and to guide overall investment strategy. We study economic and political developments and contemplate their effects on the equity and credit markets. This helps to determine whether market conditions are generally favorable or unfavorable and to identify specific asset classes, sectors, and industries that are likely to be positively or negatively impacted.

## *Core Portfolios*

Our Core Portfolios use different methods of analysis, sources of information, and strategies that depend upon the type of portfolio we are managing:

### *Individual Equities Portfolios*

TCM reviews primarily large and medium capitalization companies to select those with high quality management, earnings growth potential, and large market share. Further, we seek companies with increasing margins, strong cash flow, positive earnings surprises, and strong balance sheets. TCM also may review the companies' track record of acquisitions, insider buy/sell decisions, book value (especially where the book value understates the market value of various assets), potential for turnaround situations, stock buy-back history and plans (versus its alternative uses for cash) and other fundamental factors.

### *Stock-Index Fund Portfolios*

For this portfolio style, TCM selects open-end funds based on current market conditions, client objectives, and risk tolerance levels. Other investment factors include low expense ratio, past performance, and ratings from third-party services, such as Morningstar and/or Standard and Poor's. We frequently select no-load index funds (such as Vanguard open-end funds and ETFs from various sponsors) to minimize client costs and to seek similar returns based on the index(es) selected.

For the Individual Equities Portfolios, TCM utilizes a growth at a reasonable price (GARP) approach and selects for investment those companies which offer comparatively high earnings growth rates and dividends relative to their price to earnings multiple. TCM typically adjusts the earnings figures used to reflect many non-cash and/or non-recurring charges and additions to earnings. We trade around core positions, selling a portion of a position into strength and adding to positions on weakness. We use simple technical analysis techniques to determine buy and sell prices for the equities selected such as support and resistance points, Bollinger bands, moving averages and trend lines.

Generally, and depending on the size of the account(s), we diversify Individual Equities Core Portfolios among five or more industries, and typically remain fully invested. However, Core Portfolios below our minimum account size of \$250,000 may not be as diversified as an account with \$250,000 or more, which increases the risk of the portfolio account. The timing and percentage that we invest in equities depends on market conditions and the client's objectives and risk tolerance. When we open a new account, the client states a preference to be fully invested immediately or to have available cash invested over a period of months at TCM's discretion.

At the beginning of each relationship, we explain to each client that while we will strive to implement the client's preferences, the client's account may become fully invested sooner or later due to changing market conditions. Generally, we hold securities longer than one year. However, if fundamentals change at a company, or if we deem it appropriate, we may choose to sell investments more quickly. For retirement accounts or less tax-sensitive accounts, we may utilize shorter holding periods to take advantage of market conditions.

Core Portfolios may have holdings in "concept stocks." This refers to stocks of companies with little or no current earnings that trade on the prospect of earnings many years in the future (e.g., biotechnology



stocks). The amount of concept stocks held in Core Portfolios varies depending upon the client's investment objectives and current market conditions. From time-to-time, we may also invest Individual Equities Portfolios in fixed income instruments in an effort to take advantage of specific market conditions. We may also invest a small portion of Individual Equities Portfolios in select stock index funds to gain increased exposure to a specific sector, region, or country.

### Income Portfolios

This Core Portfolio style typically contains laddered investment-grade individual bonds (taxable and/or tax-free municipal), with a lesser allocation to REITS, high-yield bonds, inflation-protected instruments, convertible bonds, international bonds, bank loans, commodities, and in some cases, to preferred stocks, depending on the market and economic conditions. The allocation to different asset classes diversifies the income portfolio for different economic conditions. For example, REITS and inflation-protected instruments generally perform well in an inflationary environment, while the laddered investment-grade bonds typically perform well in a deflationary environment. High-yield and convertible bonds tend to perform well as the economy resumes growth after a recession, while investment-grade bonds tend to perform better as the economy weakens. TCM believes that investment-grade bonds generally are safer than the other asset classes. However, through diversification into dissimilar asset classes, the entire Income Portfolio tends to be less risky than holding any of the asset classes separately.

TCM changes the asset allocation between the different asset classes as economic conditions and the price of the securities change. We will generally take profits in securities as they become over-valued and use the proceeds to buy under-valued securities in other asset classes. We may implement some of these asset classes using ETFs and/or mutual funds. The Income Portfolios may contain laddered investment-grade bonds, which generally have a mix of credit ratings from BBB- to AAA. Individual bonds may have various call and redemption features. TCM reviews these features to structure a bond portfolio with a mix of redemption features appropriate to the current and expected interest-rate environment.

### Third-Party Advisers

TCM may recommend other investment advisers based on the client's investment objectives and financial situation, and the other investment adviser's management style. For information on the third-party advisers we use, see **Wrap Fee Programs** in **Item 4**, above.

## General Risk of Loss Statement

Prior to entering into an agreement with TCM, the client should carefully consider:

1. That investing in securities involves risk of loss which clients should be prepared to bear;
2. That there is no assurance that a positive return will be obtained;
3. That securities markets experience varying degrees of volatility, and TCM does not guarantee the performance of the account, or promise that investment decisions, strategies and overall management of the account will be successful;
4. That over time the client's assets may fluctuate and at any time be worth more or less than the amount invested; and

5. That clients should only commit assets that they feel are currently unneeded and available to TCM for investment on a long-term basis. This is typically a minimum of five to seven years.

## **Specific Security Risks**

### *General Risks of Owning Securities*

The prices of securities held in client accounts and the income they generate may decline in response to certain events taking place around the world. These include events directly involving the issuers of securities held in a client's account, conditions affecting the general economy, and overall market changes. Other contributing factors include local, regional, or global political, social, or economic instability and governmental or governmental agency responses to economic conditions. Finally, currency, interest rate, and commodity price fluctuations may also affect security prices and income.

Investments in securities issued by entities based outside the United States may be subject to increased levels of risk. This includes domestically issued mutual funds and exchange traded funds (ETFs) that hold foreign investments as the underlying securities of the funds. Currency fluctuations and controls, different accounting, auditing, financial reporting, disclosure, regulatory and legal standards and practices could also affect investments in securities of foreign issuers. Additional factors may include expropriation, changes in tax policy, greater market volatility, different securities market structures, and higher transaction costs. Finally, various administrative difficulties, such as delays in clearing and settling portfolio transactions, or in receiving payment of dividends can increase risk. Finally, investments in securities issued by entities domiciled in the United States may also be subject to many of these risks.

### *Equity Securities*

Equity securities represent an ownership position in a company. Equity securities typically consist of common stocks. The prices of equity securities fluctuate based on, among other things, events specific to their issuers and market, economic and other conditions. For example, prices of these securities can be affected by financial contracts held by the issuer or third parties (such as derivatives) relating to the security or other assets or indices.

There may be little trading in the secondary market for particular equity securities, which may adversely affect the ability to value accurately or dispose of such equity securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of equity securities.

### *Small Capitalization Equity Securities*

Investing in smaller companies may pose additional risks as it is often more difficult to value or dispose of small company stocks, more difficult to obtain information about smaller companies, and the prices of their stocks may be more volatile than stocks of larger, more established companies. Clients should have a long-term perspective and, for example, be able to tolerate potentially sharp declines in value.

### *American Depositary Receipts (ADRs)/Ordinary Shares*

An ADR is a stock that trades in the United States but represents a specified number of shares in a foreign corporation. Investors buy and sell ADRs on American markets just like regular stocks. Banks and brokerage firms issue/sponsor ADRs. ADRs are subject to additional risks of investing in foreign

securities, including, but not limited to, less complete financial information available about foreign issuers, less market liquidity, more market volatility, and political instability. In addition, currency exchange-rate fluctuations affect the U.S. dollar-value of foreign holdings.

Some ADRs and ordinary shares of foreign securities pay dividends, and many foreign countries impose dividend withholding taxes up to 30%. Depending on a custodian's ability to reclaim any withheld foreign taxes on dividends, taxable accounts may be able to recoup a portion of these taxes by use of the foreign tax credit. However, tax-exempt accounts, to the extent they pay any foreign withholding taxes, may not be able to utilize the foreign tax credit. Therefore, investors may be unable to recover any foreign taxes withheld on dividends of foreign securities or ADRs.

### Debt Securities (Bonds)

Issuers use debt securities to borrow money. Generally, issuers pay investors periodic interest and repay the amount borrowed either periodically during the life of the security and/or at maturity. Alternatively, investors can purchase other debt securities, such as zero coupon bonds, which do not pay current interest, but rather are priced at a discount from their face values and their values accrete over time to face value at maturity. The market prices of debt securities fluctuate depending on such factors as interest rates, credit quality, and maturity. In general, market prices of debt securities decline when interest rates rise and increase when interest rates fall. The longer the time to a bond's maturity, the greater its interest rate risk.

Certain additional risk factors relating to debt securities include:

#### Reinvestment Risk

When interest rates are declining, investors have to reinvest their interest income and any return of principal, whether scheduled or unscheduled, at lower prevailing rates.

#### Inflation Risk

Inflation causes tomorrow's dollar to be worth less than today's; in other words, it reduces the purchasing power of a bond investor's future interest payments and principal, collectively known as "cash flows." Inflation also leads to higher interest rates, which in turn leads to lower bond prices.

#### Interest Rate and Market Risk

Debt securities may be sensitive to economic changes, political and corporate developments, and interest rate changes. Investors can also expect periods of economic change and uncertainty, which can result in increased volatility of market prices and yields of certain debt securities. For example, prices of these securities can be affected by financial contracts held by the issuer or third parties (such as derivatives) relating to the security or other assets or indices.

#### Call Risk

Debt securities may contain redemption or call provisions entitling their issuers to redeem them at a specified price on a date prior to maturity. If an issuer exercises these provisions in a lower interest rate market, the account would have to replace the security with a lower yielding security, resulting in decreased income to investors.

Usually, a bond is called at or close to par value. This subjects investors that paid a premium for their bond to a risk of lost principal. In reality, prices of callable bonds are unlikely to move much above the call price if lower interest rates make the bond likely to be called.

#### Credit Risk

If the issuer of a debt security defaults on its obligations to pay interest or principal or is the subject of bankruptcy proceedings, the account may incur losses or expenses in seeking recovery of amounts owed to it.

#### Liquidity and Valuation Risk

There may be little trading in the secondary market for particular debt securities, which may affect adversely the account's ability to value accurately or dispose of such debt securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of debt securities.

It may be possible to reduce the risks described above through diversification of the client's portfolio and by credit analysis of each issuer, as well as by monitoring broad economic trends and corporate and legislative developments, but there can be no assurance that we will be successful in doing so. Credit ratings for debt securities provided by rating agencies reflect an evaluation of the safety of principal and interest payments, not market value risk. The rating of an issuer is a rating agency's view of past and future potential developments related to the issuer and may not necessarily reflect actual outcomes. There can be a lag between the time of developments relating to an issuer and the time a rating is assigned and updated.

Bond rating agencies may assign modifiers (such as +/-) to ratings categories to signify the relative position of a credit within the rating category. Unless we state otherwise, clients should include any security within that category without considering the modifier when reading their investment policies based on ratings categories.

#### Exchange-Traded Funds (ETFs)

An ETF is a type of security (usually, an open-end fund or unit investment trust) containing a basket of stocks, fixed income instruments, and/or commodities. Typically, the objective of an ETF is to achieve returns similar to a particular market index, including sector indexes. An ETF is similar to an index fund in that it will primarily invest in securities of companies that are included in a selected market. Unlike traditional mutual funds, which can only be redeemed at the end of a trading day, ETFs trade throughout the day on an exchange. Like mutual funds, the prices of the underlying securities and the overall market may affect ETF prices. Similarly, factors affecting a particular industry segment may affect ETF prices that track that particular sector.

TCM may recommend for client portfolios ETFs comprised of domestic and/or foreign stocks/bonds, commodities, and occasionally alternative investments. TCM employs ETFs to gain exposure to countries, styles, sectors, and industries not routinely covered by our research and in some cases for broad market exposure.

## Municipal Bonds

Municipal bonds are debt obligations generally issued to obtain funds for various public purposes, including the construction of public facilities. Municipal bonds pay a lower rate of return than most other types of bonds. However, because of a municipal bond's tax-favored status, investors should compare the relative after-tax return to the after-tax return of other bonds, depending on the investor's tax bracket. Investing in municipal bonds carries the same general risks as investing in bonds in general. Those risks include interest rate risk, reinvestment risk, inflation risk, market risk, call or redemption risk, credit risk, and liquidity and valuation risk. Investing in municipal bonds carries risk unique to these types of bonds, which may include:

### Legislative Risk

Legislative risk includes the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income.

### Tax-Bracket Changes

Municipal bonds generate tax-free income, and therefore pay lower interest rates than taxable bonds. Investors who anticipate a significant drop in their marginal income-tax rate may benefit from the higher yield available from taxable bonds.

### Liquidity Risk

The risk that investors may have difficulty finding a buyer when they want to sell and may be forced to sell at a significant discount to market value. Liquidity risk is greater for thinly traded securities such as lower-rated bonds, bonds that were part of a small issue, bonds that have recently had their credit rating downgraded or bonds sold by an infrequent issuer. Municipal bonds may be less liquid than other bonds.

### Credit Risk

Credit risk includes the risk that a borrower will be unable to make interest or principal payments when they are due and therefore default. To reduce investor concern, insurance policies that guarantee repayment in the event of default back many municipal bonds.

### Alternative Minimum Tax ("AMT")

TCM invests in a variety of fixed income securities for clients. For those accounts seeking preservation of capital and current income exempt from taxation, where possible, we do not invest in municipal bonds subject to the Alternative Minimum Tax ("AMT").

### General Obligation vs. Revenue Bonds

Typically, investors consider General Obligation bonds to be safer than Revenue bonds since the full faith and credit of the issuer backs the interest and principal payments. With revenue bonds, the interest and principal are dependent upon the revenues paid by users of the facility or service. Frequently the issuers of revenue bonds are either private sector corporations (e.g. hospitals) or entities that exist, often in local monopoly form, to provide a public service (e.g. power utilities or public transportation authorities). Consequently, the thought is that the consumer spending that provides the funding or income stream for revenue bond issuers may be more vulnerable to changes in consumer

tastes or a general economic downturn compared to a state or city's ability to raise taxes to pay for its General Obligation commitments.

### *Municipal Bonds of a Particular State*

Municipal bonds are debt obligations generally issued to obtain funds for various public purposes, including the construction of public facilities. Securities issued by California municipalities are more susceptible to factors adversely affecting issuers of California securities. For example, in the past, California voters have passed amendments to the state's constitution and other measures that limit the taxing and spending authority of California governmental entities, and future voter initiatives may adversely affect California municipal bonds.

### *Cash and Cash Equivalents*

The account may hold cash or invest in cash equivalents. Cash equivalents include:

1. commercial paper (for example, short-term notes with maturities typically up to 12 months in length issued by corporations, governmental bodies or bank/corporation sponsored conduits (asset-backed commercial paper));
2. short-term bank obligations (for example, certificates of deposit, bankers' acceptances (time drafts on a commercial bank where the bank accepts an irrevocable obligation to pay at maturity)) or bank notes;
3. savings association and savings bank obligations (for example, bank notes and certificates of deposit issued by savings banks or savings associations);
4. securities of the U.S. government, its agencies or instrumentalities that mature, or may be redeemed, in one year or less; and
5. corporate bonds and notes that mature, or that may be redeemed, in one year or less.

Cash and cash equivalents are the most liquid of investments. Cash and cash equivalents are considered very low-risk investments meaning, there is little risk of losing the principal investment. Typically, low risk also means low return and the interest an investor can earn on this type of investment is low relative to other types of investing vehicles.

### *Securities with Equity and Debt Characteristics*

Some securities have a combination of equity and debt characteristics. These securities may at times behave more like equity than debt or vice versa. Some types of convertible bonds, preferred stocks or other preferred securities automatically convert into common stocks or other securities at a stated conversion ratio and some may be subject to redemption at the option of the issuer at a predetermined price. These securities, prior to conversion, may pay a fixed rate of interest or a dividend. Because convertible securities have both debt and equity characteristics, their values vary in response to many factors, including the values of the securities into which they are convertible, general market and economic conditions, and convertible market valuations, as well as changes in interest rates, credit spreads and the credit quality of the issuer.

These securities may include hybrid securities, which also have equity and debt characteristics. Such securities are normally at the bottom of an issuer's debt capital structure. As such, they may be more

sensitive to economic changes than more senior debt securities. Investors may also view these securities as more equity-like by the market when the issuer or its parent company experience financial problems.

The prices and yields of nonconvertible preferred securities or preferred stocks generally move with changes in interest rates and the issuer's credit quality, similar to the factors affecting debt securities. Nonconvertible preferred securities may be treated as debt for account investment limit purposes.

### Real Estate Investment Trusts

Securities issued by real estate investment trusts (REITs) primarily invest in real estate or real estate-related loans. Equity REITs own real estate properties, while mortgage REITs hold construction, development and/or long-term mortgage loans. Changes in the value of the underlying property of the trusts, the creditworthiness of the issuer, property taxes, interest rates, tax laws, and regulatory requirements, such as those relating to the environment all can affect the values of REITs. Both types of REITs are dependent upon management skill, the cash flows generated by their holdings, the real estate market in general, and the possibility of failing to qualify for any applicable pass-through tax treatment or failing to maintain any applicable exempt status afforded under relevant laws.

### Mutual Funds (Open-end Investment Company)

A mutual fund is a company that pools money from many investors and invests the money in stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. The portfolio of the fund consists of the combined holdings it owns. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate. The price that investors pay for mutual fund shares is the fund's per share net asset value (NAV) plus any shareholder fees that the fund imposes at the time of purchase (such as sales loads). Risk factors vary from fund to fund. TCM may recommend for client portfolios mutual funds comprised of domestic and/or foreign stocks/bonds, commodities, and occasionally alternative investments.

The benefits of investing through mutual funds include:

#### Professionally Managed

Mutual funds are professionally managed by investment advisers who research, select, and monitor the performance of the securities the fund purchases.

#### Diversification

Mutual funds typically have the benefit of diversification, which is an investing strategy that generally sums up as "Don't put all your eggs in one basket." Spreading investments across a wide range of companies and industry sectors can help lower the risk if a company or sector fails. Some investors find it easier to achieve diversification through ownership of mutual funds rather than through ownership of individual stocks or bonds.

#### Affordability

Some mutual funds accommodate investors who do not have a lot of money to invest by setting relatively low dollar amounts for initial purchases, subsequent monthly purchases, or both.

### Liquidity

Generally, mutual fund investors can readily redeem their shares at the current NAV, less any fees and charges assessed on redemption. Less frequently, some mutual funds have the option to redeem shares using the underlying stocks in the fund's portfolio, or may delay redemption for a defined period.

Mutual funds also have features that some investors might view as disadvantages:

### Costs Despite Negative Returns

Mutual funds pay operating and other expenses from fund assets regardless of how the fund performs, which are indirectly charged to all holders of the mutual fund shares. Depending on the timing of their investment, investors may also have to pay taxes on any capital gains distribution they receive. This includes instances where the fund went on to perform poorly after purchasing shares.

### Lack of Control

Investors typically cannot ascertain the exact make-up of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells, the timing of those trades, or the potential tax ramifications of those trades.

### Price Uncertainty

With an individual stock, investors can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling a broker or investment adviser. Investors can also monitor how a stock's price changes from hour to hour—or even second to second. By contrast, with a mutual fund, the price at which an investor purchases or redeems shares will typically depend on the fund's NAV, which the fund might not calculate until many hours after the investor placed the order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

### Exchange-Traded Notes (ETNs)

An ETN is a senior, unsecured, unsubordinated debt security by an underwriting bank whose primary objective is to achieve the same return as a particular market index. Similar to other debt securities, the credit of the issuer is the only backing for ETNs, which have a maturity date. Although performance is contractually tied to whatever index the ETN is intended to track, ETNs do not have any assets, other than a claim against their issuer for payment according to the terms of the contract. Unlike traditional mutual funds, which can only be redeemed at the end of a trading day, ETNs trade throughout the day on an exchange. ETNs, as debt instruments, are subject to risk of default by the issuing bank as counter party. This is the major design difference between ETFs and ETNs: ETFs are only subject to market risk whereas ETNs are subject to both market risk and the risk of default by the issuing bank.

### Closed-end Funds

Closed-end funds generally do not continually offer their shares for sale. Rather, they sell a fixed number of shares at one time, after which the shares typically trade on a secondary market, such as the New York Stock Exchange or the NASDAQ Stock Market. Risk factors pertaining to closed-end funds vary from fund to fund.



### Unit Investment Trusts (UITs)

Unit Investment Trusts make a one-time public offering of only a specific, fixed number of redeemable securities called “units.” These units terminate and dissolve on a date specified at the creation of the UIT. Each unit of the UIT represents a pro rata share of a diversified portfolio of securities.

Diversification can help minimize the credit risks of individual securities within the portfolio. Some fixed income UITs may concentrate in bonds of a particular type of issuer and are therefore less diversified and subject to greater risk than a more diversified portfolio.

### Obligations Backed by the "Full Faith and Credit" of the U.S. Government

U.S. government obligations include the following types of securities:

#### U.S. Treasury Securities

U.S. Treasury securities include direct obligations of the U.S. Treasury, such as Treasury bills, notes, and bonds. For these securities, the U.S. government unconditionally guarantees the payment of principal and interest, resulting in the highest possible credit quality. Fluctuations in interest rates subject U.S. Treasury securities to variations in market value. However, they are paid in full when held to maturity.

#### Federal Agency Securities

Certain U.S. government agencies and government-sponsored entities guarantee the timely payment of principal and interest with the backing of the full faith and credit of the U.S. government. Such agencies and entities include The Federal Financing Bank (FFB), the Government National Mortgage Association (Ginnie Mae), the Veterans Administration (VA), and the Federal Housing Administration (FHA)

#### Other Federal Agency Obligations

Additional federal agency securities neither are direct obligations of, nor guaranteed by, the U.S. government. These obligations include securities issued by certain U.S. government agencies and government-sponsored entities. However, they generally involve some form of federal sponsorship: some operate under a government charter; specific types of collateral back some; the issuer’s right to borrow from the Treasury supports some; and only the credit of the issuing government agency or entity supports others.

### Mortgage-Backed Securities

U.S. government agencies and government-sponsored entities, such as Ginnie Mae, Fannie Mae, and Freddie Mac, and private entities issue mortgage-backed securities. The payment of interest and principal on mortgage-backed obligations issued by U.S. government agencies may be guaranteed by the full faith and credit of the U.S. government (in the case of Ginnie Mae), or may be guaranteed by the issuer (in the case of Fannie Mae and Freddie Mac). However, these guarantees do not apply to the market prices and yields of these securities, which vary with changes in interest rates.

Private entities that issue mortgage-backed securities structure them similarly to those issued by U.S. government agencies. However, government agencies do not guarantee the mortgage-backed securities or the underlying mortgages issued by private entities. The structure of these securities generally includes one or more types of credit enhancements such as insurance or letters of credit issued by private companies. Mortgage-backed securities generally permit borrowers to prepay their underlying mortgages. Prepayments can alter the effective maturity of these instruments.

### High-Yield Debt

Lower rated debt securities generally have higher rates of interest and involve greater risk of default or price changes due to changes in the issuer's creditworthiness than higher rated debt securities. The market prices of these securities may fluctuate more than higher quality securities and may decline significantly in periods of general economic difficulty. There may be little trading in the secondary market for particular debt securities, which may make them more difficult to value or sell. The prices of, and the income generated by, most debt securities held by client accounts may be affected by changing interest rates and by changes in the effective maturities and credit ratings of these securities.

### Treasury Inflation Protected Securities (TIPS)

Treasury Inflation Protected Securities (TIPS) are inflation-indexed securities structured to remove inflation risk. The principal of a TIPS increases with inflation and decreases with deflation, as measured by the Consumer Price Index. When a TIPS matures, the investor receives the adjusted principal or original principal, whichever is greater. TIPS pay interest twice a year, at a fixed rate. The rate is applied to the adjusted principal; so, like the principal, interest payments rise with inflation and fall with deflation.

### Inflation-Indexed Bonds

TCM may invest for client accounts in inflation-indexed bonds issued by governments, their agencies or instrumentalities and corporations. The principal amount of an inflation-indexed bond adjusts to changes in the level of the consumer price index. In the case of U.S. Treasury inflation-indexed bonds, the U.S. Government guarantees the repayment of the original bond principal upon maturity (as adjusted for inflation). Therefore, the principal amount of such bonds cannot fall below par even during a period of deflation. However, the current market value of these bonds is not guaranteed and will fluctuate, reflecting the rise and fall of yields.

### Master Limited Partnerships (MLPs)

MLPs are publicly traded partnerships that trade mainly on the New York Stock Exchange and/or the NASDAQ, the same as stocks. With a few exceptions, MLPs hold and operate assets related to the transportation and storage of energy (certain MLPs may have commodity risk). Most publicly traded companies are corporations. Corporate earnings are usually taxed twice. The business entity is taxed on any money it makes and then shareholders are taxed on the earnings the company distributes to them.

In the 1980s, Congress allowed public trading of certain types of companies as partnerships instead of as corporations. The main advantage a partnership has over a corporation is that partnerships are "pass through" entities for tax purposes. This means that the company does not pay any tax on its earnings. Distributions are still taxed, but this avoids the problem of double taxation that most publicly traded companies face. Congress requires that any company designated as an MLP has to produce 90% of its earnings from "qualified resources" (natural resources and real estate). Most MLPs are involved in energy infrastructure, i.e. things like pipelines. MLPs are required to pay minimum quarterly distributions to limited partners. A contract establishes the payments, so distributions are predictable. Otherwise, the shareholders could find the company in breach of contract.

MLPs bear three primary risks:

#### Risk of Regulation or Change

The government could step in and change the rules of the game. That can always happen. Since one of the main advantages of these securities is their tax advantages, this poses a considerable risk for an investor.

#### Interest Rate Risk

It is commonly thought that these types of investments do better when interest rates are low, making their yield higher in relation to the safest investments, such as Treasury bills and securities that are guaranteed by the U.S. government. Consequently, MLPs may perform better during periods of declining or relative low interest rates and more poorly during periods of rising or high interest rates.

#### Tax Risk

MLPs are pass-through entities, passing earnings through to the limited partners. Investors must be aware that there are potentially significant tax implications of investing in MLPs and they should consult with their tax advisor before investing in these securities.

#### Investing Outside the U.S.

Investing outside the United States may involve additional risks of foreign investing. These risks may include currency controls and fluctuating currency values, and different accounting, auditing, financial reporting, disclosure, and regulatory and legal standards and practices. Additional factors may include changing local, regional, and global economic, political, and social conditions. Further, expropriation, changes in tax policy, greater market volatility, different securities market structures, and higher transaction costs can be contributors to greater risk. Finally, various administrative difficulties, such as delays in clearing and settling portfolio transactions or in receiving payment of dividends can also lead to additional risk.

Investments in developing countries can further heighten the risks described above. A developing country may be in the earlier stages of its industrialization cycle with a low per capita gross domestic product ("GDP") and a low market capitalization to GDP ratio relative to those in the United States and the European Union. Historically, the markets of developing countries have been more volatile than the markets of developed countries.

#### *American Depositary Receipts (ADR)*

An ADR is a security that trades on U.S. exchanges but represents a specified number of shares in a foreign corporation. Investors buy and sell ADRs on American markets just like regular stocks. Some banks and brokerage firms issue/sponsor ADRs. ADRs are subject to risks of investing in foreign securities, including, but not limited to, less complete financial information available about foreign issuers, less market liquidity, more market volatility, and political instability. In addition, currency exchange-rate fluctuations affect the U.S. dollar-value of foreign holdings.

Some ADRs and ordinary shares of foreign securities pay dividends, and many foreign countries impose dividend withholding taxes up to 30%. Depending on a custodian's ability to reclaim any withheld foreign taxes on dividends, taxable accounts may be able to recoup a portion of these taxes by use of

the foreign tax credit. However, tax-exempt accounts, to the extent they pay any foreign withholding taxes, may not be able to utilize the foreign tax credit. Therefore, investors may be unable to recover any foreign taxes withheld on dividends of foreign securities or ADRs.

## **ITEM 9 - DISCIPLINARY INFORMATION**

TCM and our personnel seek to maintain the highest level of business professionalism, integrity, and ethics. TCM does not have any disciplinary information to disclose.

## **ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

TCM does not offer any other services or have any affiliates in the financial industry.

## **ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

TCM believes that we owe clients the highest level of trust and fair dealing. As part of our fiduciary duty, we place the interests of our clients ahead of the interests of the firm and our personnel. TCM's personnel are required to conduct themselves with integrity at all times and follow the principles and policies detailed in our Code of Ethics.

TCM's Code of Ethics attempts to address specific conflicts of interest that either we have identified or that could likely arise. TCM's personnel are required to follow clear guidelines from the Code of Ethics in areas such as gifts and entertainment, other business activities, and adherence to applicable state and federal securities laws. TCM prohibits all personnel from acting upon any material, non-public information, as defined under federal securities laws and our Code of Ethics insider trading policy. Additionally, individuals who make investment decisions in client accounts, or who have access to nonpublic information regarding any clients' purchase or sale of securities are subject to personal trading policies governed by the Code of Ethics (see below). TCM periodically reviews and amends the Code of Ethics to ensure that it remains current, and requires access persons to attest to their understanding of and adherence to the Code of Ethics at least annually. A copy of the firm's Code of Ethics is made available to any client or prospective client upon request.

### **Personal Trading Practices**

TCM does not trade for its own account (e.g. proprietary trading). TCM and our personnel may purchase or sell securities for themselves that we also utilize for clients. This includes related securities (e.g., warrants, options, or futures). This presents a potential conflict of interest as we may have an incentive to take investment opportunities from clients for our own benefit, favor our personal trades over client transactions when allocating trades, or to use the information about the transactions we intend to make for clients to our personal benefit by trading ahead of clients. TCM and our personnel may purchase or sell securities for themselves, regardless of whether the transaction would be appropriate for a client's account.

Our policies to address these conflicts include the following:

1. The client receives the opportunity to act on investment decisions prior to and in preference to accounts of TCM and our personnel.
2. TCM prohibits trading in a manner that takes personal advantage of price movements caused by client transactions.
3. TCM requires our personnel to obtain pre-approval for personal trades in certain securities, including IPOs and limited offerings, from the Chief Compliance Officer.
  - a. All personal and proprietary transactions that fall under our pre-clearance policies are subject to a 30-day ban on short-term trading profits, except when selling at a loss. We may make exceptions to the 30-day ban when the trade would not disadvantage any client.
4. TCM does not require pre-approval for the following transactions:
  - a. Trades in securities that are not held in any TCM client account and that we are not considering for purchase or sale in client accounts;
    - If we subsequently purchase the security for a client, pre-clearance will be required if our personnel wish to sell the position or purchase additional shares unless the transaction falls under the ***de minimis*** policy below, or until our client(s) no longer hold(s) the position;
  - b. That fall under the ***de minimis*** policy below;
  - c. That are traded with client trades as described under ***Aggregation with Client Orders*** below;
  - d. In any employee account managed by TCM where the employee does not have influence over or control of transactions conducted in the account;
  - e. For purchases of securities effected through an automatic investment plan.

#### ***De minimis Policy***

TCM and our personnel are not required to pre-clear the following types of transactions:

##### **Equity Securities**

The transaction is under \$20,000, and the security has a market capitalization of over \$1 billion and/or the security has an average daily trading volume of over one million shares, and the security trades on the NYSE or other domestic exchange/financial market, including NASDAQ (excluding all options).

##### **Exchange Traded Funds**

The transaction is under \$20,000 and the security has an average daily trading volume of over 100,000 shares and the security trades on the NYSE/AMEX or other domestic exchange/financial market, including NASDAQ.

##### **Debt Securities**

The bond purchase or sale is less than \$100,000 in principal amount per issuer.

### Aggregation with Client Orders

TCM may aggregate orders for clients in the same securities in an effort to seek best execution, negotiate more favorable commission rates, and/or allocate differences in prices, commissions, and other transaction costs equitably among our clients. These are benefits of aggregating orders that we might not obtain if we placed those orders independently.

TCM may aggregate trades in like securities among client accounts as well as with accounts of TCM and our personnel, if we follow the policies described below. This presents a potential conflict of interest as we may have an incentive to allocate more favorable executions to our own accounts or the accounts of our personnel.

Our policies to address this conflict are as follows:

1. We will disclose our aggregation policies in this brochure;
2. We will not aggregate transactions unless we believe that aggregation is consistent with our duty to seek best execution (which includes the duty to seek best price) for our clients. The trade also needs to be consistent with the terms of our investment advisory agreement with each client that has an account included in the aggregation;
3. We will not favor any account over any other account. This includes accounts of TCM or any of our personnel. Each account in the aggregated order will participate at the average share price for all of our aggregated transactions in a given security on a given business day (per custodian). All accounts will pay their individual transaction costs;
  - a. As an additional control, we may attribute a less favorable price to our personal accounts when participating in aggregated trades with clients;
  - b. "Limit" orders entered individually may receive different pricing than a block entered for the other clients in the same security;
  - c. Although TCM may bunch orders from time to time, at no time will we aggregate or bunch orders that would result in combining Legacy Portfolios accounts with Core Portfolios accounts and vice versa;
4. Before entering an aggregated order, we will prepare a written statement (the "Allocation Statement") specifying the participating accounts and how we intend to allocate the order among those accounts;
5. If the aggregated order is filled entirely, we will allocate shares among clients according to the Allocation Statement; if the order is partially filled:
  - a. For all trades, we may allocate the order differently than specified in the Allocation Statement if all client accounts receive fair and equitable treatment (see also **Item 12 – Brokerage Practices**, below);
  - b. For equity trades, we will explain the reasons for a different allocation in writing, which the CCO must approve within one hour following the opening of the markets on the next trading day; and

- c. For fixed income trades, securities are allocated taking into account a client's cash position and current asset allocation.
- 6. Notwithstanding the foregoing, the order may be allocated on a basis different from that specified in the Allocation Statement if all accounts of clients whose orders are allocated receive fair and equitable treatment and the reason for such different allocation is explained in writing and is approved in writing by the CCO or designee within a reasonable period of time following the opening of the markets on the trading day following the day on which the order is executed;
- 7. Our books and records will separately reflect each aggregated order and the securities held by, bought, and sold for each client account;
- 8. Funds and securities of clients participating in an aggregated order will be deposited with one or more qualified custodians. Clients' cash and securities will not be held any longer than is necessary to settle the trade on a delivery versus payment basis. Following settlement, cash or securities held for clients will be delivered out to the qualified custodian as soon as practical;
- 9. We do not receive additional compensation or remuneration of any kind as a result of aggregating orders; and
- 10. We will provide individual investment advice and treatment to each client's account.

## ITEM 12 - BROKERAGE PRACTICES

### Factors Considered in Selecting Broker-Dealers for Client Transactions

TCM requires clients to open one or more custodian accounts in their own name at a custodian of the client's choice. For clients in need of brokerage or custodial services, TCM may recommend the use of Schwab Advisor Services™, a division of Charles Schwab & Co., Inc. ("Schwab"), TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade"), and/or Fidelity Institutional Wealth Services, a division of Fidelity Brokerage Services, Inc. ("Fidelity"), registered broker-dealer(s), Members SIPC.

A client is not obligated to effect trades through any recommended broker or custody their assets with any broker-dealer we recommend. All clients are free to select any broker-dealer of his or her choice. The client will enter into a separate agreement with the broker-dealer/custodian to hold assets for safekeeping. TCM also requires that clients grant us limited power of attorney to execute client transactions through the broker-dealer/custodian. TCM is independently owned and operated, and unaffiliated with any broker-dealer/custodian.

The broker-dealer/custodian(s) we recommend may charge commissions (ticket charges) for executing our transactions. We do not receive any part of these separate charges. We may recommend that clients establish accounts with a broker-dealer/custodian to maintain custody of clients' assets and to effect trades for their accounts. The broker-dealer/custodian may provide us with access to their institutional trading and custody services, which are typically not available to retail investors. The

broker-dealer/custodian's services typically include brokerage custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or that would require a significantly higher minimum initial investment. TCM's clients that open accounts with the broker-dealer/custodian's we recommend will not be charged separately for custody. However, the broker-dealer/custodian receives compensation from account holders through commissions or other transaction-related fees or securities trades that are executed through the broker-dealer/custodian or that settle into broker-dealer/custodian accounts.

Even though clients may maintain accounts at one of the recommended broker-dealer/custodians, we can still use other brokers to execute trades in client accounts. A prime brokerage arrangement permits trades to be executed by another brokerage firm while the client's broker-dealer/custodian ("Prime Broker") provides custody and trade clearance and settlement services. In addition to commissions, the broker-dealer/custodian may charge the client a flat dollar amount as a "prime broker" or "trade away" fee for each trade that we have executed by a different broker/dealer but where the securities bought or the funds from the securities sold are deposited (settled) into the client's custodian account. These fees are in addition to the commissions or other compensation the client pays to the executing broker-dealer. Because of this, in order to minimize trading costs, we have the client's broker-dealer/custodian execute most trades in the client's account. We have determined that having the client's broker-dealer/custodian execute most trades is consistent with our duty to seek "best execution." Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed below.

We will generally use broker-dealers other than the client's broker-dealer/custodian to execute bond trades when the execution we receive from these bond brokers after the deduction of the additional "prime broker" or "trade away" fees will net a lower cost or better price for the client than if the broker-dealer/custodian executed the trade. As another benefit to the client, prime brokerage arrangements allow clients to participate in block trades, which may provide more favorable execution than when a client does not participate in a block trade. We do not involve clients in prime brokerage arrangements without their prior written authorization. Prime brokerage arrangements are only available to accounts that meet the minimum net equity requirements established by the SEC. Prime Brokers may impose net equity requirements higher than those established by the SEC.

TCM considers several factors in recommending a broker-dealer/custodian to a client. Factors that TCM may consider when recommending a broker-dealer/custodian may include:

- Historical net prices;
- Commissions charged;
- Execution and correction capabilities;
- The size and difficulty of transactions;
- Reliability and financial stability;
- Other services that may be provided to the client; and/or
- Any custodial relationship between the client and the broker-dealer.

TCM may also take into consideration the availability of the products and services received or offered (detailed below) by the broker-dealer/custodians we recommend.



### *TD Ameritrade Institutional Advisor Program*

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

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

TD Ameritrade may also have paid for business consulting and professional services received by TCM’s related persons. Some of the products and services made available by TD Ameritrade through the program may benefit TCM but may not benefit its client accounts. These products or services may assist TCM in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help TCM manage and further develop its business enterprise. The benefits received by TCM or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade.

As part of its fiduciary duties to clients, TCM endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by TCM or its related persons in and of itself creates a potential conflict of interest and may indirectly influence TCM’s choice of TD Ameritrade for custody and brokerage services.

### *Research and Other Soft Dollar Benefits*

TCM may receive from particular broker-dealers/custodians, without cost (or at a discount), support services and/or products that benefit TCM but may not directly benefit our clients’ accounts. The broker-dealers/custodians we recommend make available products and services that we may use to service all or some substantial number of our accounts, including accounts not maintained with these brokers. The broker-dealers/custodians we recommend make these products and services available to us on an unsolicited basis, at no charge to us so long as TCM maintains a minimum dollar amount of our clients’ assets in accounts at each broker-dealer/custodian.

The broker-dealers/custodians we recommend make available products and services that assist TCM in managing and administering clients' accounts including software and other technology that:

1. provide access to client account data (such as trade confirmations and account statements);
2. facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
3. provide research, pricing and other market data;
4. facilitate payment of TCM's fees from our clients' accounts; and
5. assist with back-office functions, recordkeeping, and client reporting.

The broker-dealers/custodians also offer other services intended to help TCM manage and further develop our business enterprise. These services may include:

1. compliance, legal and business consulting;
2. publications and conferences on practice management and business succession; and
3. access to employee benefits providers, human capital consultants, and insurance providers.

The broker-dealers/custodians we recommend may make available, arrange, and/or pay third-party vendors for the types of services provided to TCM. The broker-dealers/custodians may discount or waive fees they would otherwise charge for some of these services or pay all or a part of the fees of third-parties providing these services to TCM. The broker-dealers/custodians may also provide other benefits such as educational events or occasional business entertainment of TCM personnel.

Because of TCM's professional relationships with the broker-dealers/custodians we recommend, these entities offer TCM discounts for services provided by PortfolioCenter®, Standard & Poor's, and Junxure. (PortfolioCenter® is a product of Performance Technologies, Inc., which is a subsidiary of Charles Schwab & Co., Inc.)

As part of our fiduciary duty to clients, TCM endeavors at all times to put the interests of our clients first. Clients should be aware, however, that the receipt of economic benefits by TCM or our personnel in and of itself creates a potential conflict of interest and may indirectly influence TCM's recommendation of TD Ameritrade, Schwab, and/or Fidelity for custody and brokerage services.

### Brokerage for Client Referrals

TCM receives client referrals from TD Ameritrade, Inc. ("TD Ameritrade") through its participation in TD Ameritrade AdvisorDirect. In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, TCM may have been selected to participate in AdvisorDirect based on the amount and profitability to TD Ameritrade of the assets in, and trades placed for, client accounts maintained with TD Ameritrade. TD Ameritrade is a discount broker-dealer independent of and unaffiliated with TCM and there is no employee or agency relationship between them.

TD Ameritrade has established the referral program as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. TD Ameritrade does not supervise TCM and has no

responsibility for TCM's management of client portfolios or TCM's other advice or services. TCM pays TD Ameritrade an ongoing fee for each successful client referral. This fee is usually a percentage (not to exceed 25%) of the advisory fee that the client pays to TCM ("Solicitation Fee"). TCM will also pay TD Ameritrade the Solicitation Fee on any advisory fees received by TCM from any of a referred client's immediate family members, including a spouse, child, or any other family member who resides with the referred client and hires TCM on the recommendation of such referred client.

TCM will not charge clients referred through AdvisorDirect any fees or costs higher than its standard fee schedule offered to its clients or otherwise pass Solicitation Fees paid to TD Ameritrade to its clients. For information regarding additional or other fees paid directly or indirectly to TD Ameritrade, please refer to the TD Ameritrade AdvisorDirect Disclosure and Acknowledgement Form.

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

### *Directed Brokerage*

Since we request most of our clients to maintain their accounts with the broker-dealers/custodians we recommend, it is also important for clients to consider and compare the significant differences between having assets custodied at another broker-dealer, bank or other custodian prior to opening an account with us. Some of these differences include, but are not limited to; total account costs, trading freedom, transaction fees/commission rates, the speed of generating portfolio statements due to daily downloads, and security and technology services. By requesting that clients use the broker-dealers/custodians we recommend, TCM believes we may be able to more effectively manage the client's portfolio, achieve favorable execution of client transactions, and overall lower the costs to the portfolio.

While we request that our clients maintain their accounts with the broker-dealer/custodians we recommend, we will consider working with another custodian that the client chooses. Typically, when a client chooses to maintain their account with a different custodian, the client will still grant us discretion to select the broker-dealer for the client transactions. Clients that direct TCM to use a particular broker-dealer for some or all trading should consider the following:

1. TCM may not be able to negotiate specific brokerage commission rates with the broker on the client's behalf, or seek better execution services or prices from other broker-dealers when a client selects a broker-dealer other than one TCM lists as a recommended broker-dealer. As a result, the client may pay higher commissions and/or receive less favorable net prices on

transactions for their account than might otherwise be the case and that TCM will have limited ability to ensure the broker-dealer selected by the client will provide best possible execution;

2. TCM may be unable to generate portfolio statements with the same speed in the absence of daily electronic price and transaction feeds to our portfolio management system; and
3. TCM may not be able to aggregate orders to reduce transaction costs and clients who direct TCM to use a particular broker-dealer may receive less favorable prices. See also, **Item 11 – Aggregation with Client Orders**, above).

TCM generally will not recommend a broker-dealer/custodian to individuals in existing employer-sponsored plan accounts.

## **Aggregation and Allocation of Transactions**

We describe our aggregation practices in detail under **Item 11 - Aggregation with Client Orders** above.

## **ITEM 13 - REVIEW OF ACCOUNTS**

### **Managed Account Reviews**

We manage portfolios on a continuous basis and generally review all client accounts at least quarterly, with underlying investments reviewed on a more frequent basis. All accounts are reviewed with respect to adherence to client's written objectives, asset allocation, concentration in each security, sector and industry, and credit quality of fixed income securities. More frequent reviews may be triggered by material changes such as the client's investment objectives and/or financial situation, material cash deposits or withdrawals, or the market, economic, or political environment. TCM also seeks to meet client objectives by rebalancing clients' investment portfolios on a regular basis. We offer account reviews to clients on a periodic basis and clients may choose to receive reviews in person or by telephone. All clients are advised that it remains their responsibility to advise TCM of any changes in their investment objectives and/or financial situation.

### **Account Reporting**

Each client receives a written statement from the custodian that includes an accounting of all holdings and transactions in the account for the reporting period and our management fee deductions. In addition, TCM provides clients with written quarterly portfolio statement reports. Our reports detail a description of the assets held, the quantity and market value of each position, the total market value of each account, and the quarterly assessment of our advisory fee. TCM may also provide supplemental reporting as agreed upon by TCM and the client on a case-by-case basis.

## **ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION**

If a solicitor introduces a client to TCM, we may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements.

If an unaffiliated solicitor introduces a client to TCM, that solicitor will disclose the nature of the solicitor relationship with TCM at the time of the solicitation. In addition, the solicitor will provide each

prospective client with a copy of this brochure, and a copy of the written disclosure statement from the solicitor to the client disclosing the terms and conditions of the arrangement between TCM and the solicitor, including the compensation the solicitor will receive from TCM. Any affiliated solicitor of TCM will disclose the nature of the relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of this brochure.

TCM receives client referrals from TD Ameritrade, Inc. ("TD Ameritrade") through its participation in TD Ameritrade AdvisorDirect. For information on this program, see ***Brokerage for Client Referrals*** in **Item 12**, above.

### *Outside Compensation*

TCM may refer clients to unaffiliated professionals for a variety of services such as insurance, mortgage brokerage, legal, and/or tax/accounting services. In turn, these professionals may refer clients to us for advisory services. We do not have any agreements with individuals or companies that we refer clients to, and we do not receive any compensation for these referrals. However, it could be concluded that TCM is receiving an indirect economic benefit from the arrangement, as the relationships are mutually beneficial. For example, there could be an incentive for us to recommend services of firms who refer clients to TCM.

TCM only refers clients to professionals we believe are competent and qualified in their field, but it is ultimately the client's responsibility to evaluate the provider and solely the client's decision whether to engage a recommended firm. Clients are under no obligation to purchase any products or services through these professionals, and TCM has no control over the services provided by another firm. Clients who chose to engage these professionals will sign a separate agreement with the other firm. Fees charged by the other firm are separate from and in addition to fees charged by TCM.

If the client desires, TCM will work with these professionals or the client's other advisers (such as an accountant or attorney) to help ensure that the provider understands the client's investments and to coordinate services for the client. TCM will never share information with an unaffiliated professional unless first authorized by the client.

## **ITEM 15 - CUSTODY**

TCM has limited custody of some of our clients' funds or securities when they authorize us to deduct our management fees directly from their account. A qualified custodian (generally a broker-dealer, bank, trust company, or other financial institution) holds clients' funds and securities. Clients will receive statements directly from their qualified custodian at least quarterly. The statements will reflect the client's funds and securities held with the qualified custodian as well as any transactions that occurred in the account, including the deduction of our fee.

Clients should carefully review the account statements they receive from the qualified custodian. When clients receive statements from TCM as well as from the qualified custodian, clients should compare these two reports carefully. Clients with any questions about their statements should contact us at the address or phone number on the cover of this brochure. Clients who do not receive their statement from their qualified custodian at least quarterly should also notify us.

## ITEM 16 - INVESTMENT DISCRETION

TCM has full discretion to decide the specific security to trade, the quantity, and the timing of transactions for client accounts, as well as the broker-dealer through which we place trades. TCM will not contact clients before placing trades in their account, but clients will receive confirmations directly from the broker for any trades placed. Clients grant us discretionary authority in the contracts they sign with us. Clients also give us trading authority over their accounts when they sign the custodian paperwork.

However, certain client-imposed conditions may limit TCM's discretionary authority, such as where the client prohibits transactions in specific security types or directs us to execute transactions through specific broker-dealers. See also ***Tailored Services and Client Imposed Restrictions*** under ***Item 4*** and ***Item 12 – Brokerage Practices***, above.

For client accounts in TDA's MAP program (see ***Wrap Fee Programs*** in ***Item 4***, above), TCM does not accept discretionary authority and manages the accounts on a non-discretionary basis.

## ITEM 17 - VOTING CLIENT SECURITIES

### Proxy Voting

TCM does not accept or have the authority to vote client securities. TCM will not be deemed to have proxy voting authority solely as a result of providing advice or information about a particular proxy vote to a client. Clients will receive their proxies or other solicitations directly from their custodian or a transfer agent.

### ERISA

For accounts subject to ERISA, an authorized plan fiduciary other than TCM will retain proxy voting authority. Our investment advisory agreement and/or the plan's written documents will evidence and outline this authority.

### Mutual Funds

The investment adviser that manages the assets of a registered investment company (i.e., mutual fund) generally votes proxies issued on securities held by the mutual fund.

### Class Actions

TCM does not instruct or give advice to clients on whether or not to participate as a member of class action lawsuits and will not automatically file claims on the client's behalf. However, if a client notifies us that they wish to participate in a class action, we will provide the client with any transaction information pertaining to the client's account needed for the client to file a proof of claim in a class action.

## ITEM 18 - FINANCIAL INFORMATION

Registered investment advisers are required in this section to provide clients with certain financial information or disclosures about its financial condition. TCM is financially sound and does not have any financial condition that would impair its ability to meet contractual or fiduciary commitments to clients.

Neither TCM nor its management has been the subject of any bankruptcy proceeding during the past 10 years. TCM does not require the prepayment of more than \$1,200 in fees per client, six months or more in advance, and is therefore not required to provide any additional financial statements under this item.

# **Form ADV, Part 2B Brochure Supplement**

**Stefan Meierhofer  
Jonathan Fairchild  
Andrew Weld  
Bruce Sherman  
Charles Chamberlin  
Ryan Beckham**

## **Telos Capital Management, Inc.**

12121 Scripps Summit Drive,  
Suite 350  
San Diego, CA 92131-4610  
858-271-6350  
[www.telosinc.com](http://www.telosinc.com)

**March 17, 2015**

This brochure supplement provides information about Stefan Meierhofer, Jonathan Fairchild, Andrew Weld, Bruce Sherman, Charles Chamberlin, and Ryan Beckham that supplements the Telos Capital Management, Inc. brochure. You should have already received a copy of that brochure. Please contact Stefan Meierhofer if you did not receive our brochure or if you have any questions about the contents of this supplement. Additional information about Stefan Meierhofer, Jonathan Fairchild, Andrew Weld, Bruce Sherman, Charles Chamberlin, and Ryan Beckham is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



## Description of Professional Designations Used in this Brochure Supplement\*

### *Accredited Asset Management Specialist*

Accredited Asset Management Specialist, AAMS® is a professional designation issued by The College for Financial Planning to individuals who have successfully completed a self-study course that includes curricula on a variety of topics, such as the asset management process, asset allocation and regulatory and ethical strategies, investment performance, taxation, retirement and estate planning, and regulatory and ethical issues, among other topics. Candidates must pass a final exam. Designees agree to meet ongoing education and disclosure requirements and comply with the Code of Ethics, which includes abiding by the Standards of professional Conduct and Terms and Conditions. More information regarding the AAMS® is available at <http://cffpdesignations.com>.

### *Accredited Investment Fiduciary*

The Accredited Investment Fiduciary (“AIF®”) designation is issued by the Center for Fiduciary Studies. To earn the designation, each AIF® candidate must complete either a web-based or a capstone program, pass a final certification exam, and complete a minimum of 6 hours of continuing education per year. AIF® designees must also sign and agree to abide by a code of ethics. More information regarding the AIF® is available at [http://www.fi360.com/main/designations\\_aif.jsp](http://www.fi360.com/main/designations_aif.jsp).

### *Chartered Financial Analyst*

The Chartered Financial Analyst (“CFA”) designation is sponsored by CFA Institute. To earn a CFA charter, candidates must have four years of qualified investment work experience, become a member of CFA Institute, pledge to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct on an annual basis, apply for membership to a local CFA member society, and complete the CFA Program. The CFA Program is organized into three levels, each culminating in a six-hour exam. The three proctored course exams correspond to three 250-hour self-study levels. Completing the Program takes most candidates between two and five years. More information regarding the CFA is available at <https://www.cfainstitute.org>.

### *Certified Financial Planner*

The CERTIFIED FINANCIAL PLANNER™ and CFP® (collectively, the “CFP® marks”) are professional certification marks granted in the United States by Certified Financial Planner Board of Standards, Inc. (“CFP® Board”). The CFP® certification is a voluntary certification; no federal or state law or regulation requires financial planners to hold CFP® certification. The CFP® is recognized in the United States and a number of other countries for its (1) high standard of professional education; (2) stringent code of conduct and standards of practice; and (3) ethical requirements that govern professional engagements with clients.

To earn the credential, each CFP® candidate must have a bachelor’s degree (or higher) from an accredited college or university and three years of full-time personal financial planning experience. In addition, candidates must take the CFP® Certification examination and complete a CFP® -board registered program or hold an accepted designation, degree, or license. Every two years, CFP® certificate holders must complete a minimum of 30 hours of continuing education. More information regarding the CFP® is available at <http://www.cfp.net/default.asp>.

## STEFAN MEIERHOFER

### ITEM 2 - EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

**Stefan Meierhofer**, Director, Chief Investment Officer, and Chief Compliance Officer, b. 1963

*Education:*

- Accredited Investment Fiduciary, 2011
- Certified Financial Planner, 2006
- Chartered Financial Analyst, 1996
- KV Zurich, Switzerland – Swiss Certified Banker, 1987
- KV Chur, Switzerland – Degree in Banking and Finance, 1982

*Business Background:*

- Telos Capital Management Inc., Director, CIO, CCO, 01/2009 to Present
- A&M Investment Management, Partner, CIO, CCO, 01/2003 to 12/2008
- Alexander & Muckermann, Portfolio Manager/Analyst, 12/1997 to 12/2002

*\*Professional Designations:*

Stefan Meierhofer holds the following professional designations:

- Accredited Investment Fiduciary
- Chartered Financial Analyst
- Certified Financial Planner

### ITEM 3 - DISCIPLINARY INFORMATION

Stefan Meierhofer has no disciplinary history to disclose.

### ITEM 4 - OTHER BUSINESS ACTIVITIES

Stefan Meierhofer's only business is providing investment advice through TCM.

### ITEM 5 - ADDITIONAL COMPENSATION

Stefan Meierhofer's only compensation comes from his regular salary and ownership of TCM.

### ITEM 6 - SUPERVISION

Stefan Meierhofer is the Director, Chief Investment Officer, and Chief Compliance Officer of TCM and supervises all employees. He can be reached by calling 858-271-6350.

## JONATHAN FAIRCHILD

### ITEM 2 - EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

**Jonathan Fairchild**, Director, Senior Vice President, Marketing - Private Clients Division, b. 1967

*Education:*

- B.A. in Finance, University of Iowa, Iowa City, 1997

*Business Background:*

- Telos Capital Management Inc., Senior Vice President, Marketing - Private Clients Division, 09/2011 to Present
- RNC Genter Capital Management, First Vice President, Private Clients Division, 04/1999 to 08/2011

### ITEM 3 - DISCIPLINARY INFORMATION

Jonathan Fairchild has no disciplinary history to disclose.

### ITEM 4 - OTHER BUSINESS ACTIVITIES

Jonathan Fairchild's only business is to market TCM's investment services on behalf of the Private Clients Division.

### ITEM 5 - ADDITIONAL COMPENSATION

Jonathan Fairchild receives compensation through ownership of TCM and relating to the clients he has referred to the firm.

### ITEM 6 - SUPERVISION

Stefan Meierhofer is the Director, Chief Investment Officer, and Chief Compliance Officer of TCM and supervises all employees. He is responsible for supervising Jonathan Fairchild's activities. He monitors the advice provided by Jonathan Fairchild for consistency with client objectives and TCM's policies. In addition, Stefan Meierhofer reviews reports prepared by Jonathan Fairchild before we send them to clients. Stefan Meierhofer can be reached by calling 858-271-6350.

## ANDREW WELD

### ITEM 2 - EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

**Andrew Weld**, Portfolio Manager, Research Analyst, b. 1972

*Education:*

- Chartered Financial Analyst, 2001
- B.A. Political Science and Spanish, Middlebury College, Vermont, 1995

*Business Background:*

- Telos Capital Management Inc., Portfolio Manager, Research Analyst, 01/2009 to Present
- A&M Investment Management, Portfolio Manager, Research Analyst, 06/2006 to 12/2008
- Pacific Financial Group, Financial Advisor, 02/2004 to 06/2006
- Boston Family Office, Equity Analyst, Portfolio Manager, 1999 to 2003

*\*Professional Designations:*

Andrew Weld holds the following professional designations:

- Chartered Financial Analyst

### ITEM 3 - DISCIPLINARY INFORMATION

Andrew Weld has no disciplinary history to disclose.

### ITEM 4 - OTHER BUSINESS ACTIVITIES

Andrew Weld's only business is providing investment advice through TCM.

### ITEM 5 - ADDITIONAL COMPENSATION

Andrew Weld's only compensation comes from his regular salary at TCM.

### ITEM 6 - SUPERVISION

Stefan Meierhofer is the Director, Chief Investment Officer, and Chief Compliance Officer of TCM and supervises all employees. He is responsible for supervising Andrew Weld's activities. He monitors the advice provided by Andrew Weld for consistency with client objectives and TCM's policies. In addition, Stefan Meierhofer reviews reports prepared by Andrew Weld before we send them to clients. Stefan Meierhofer can be reached by calling 858-271-6350.

## **BRUCE SHERMAN**

### **ITEM 2 - EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE**

**Bruce Sherman**, Senior Vice President of Portfolio Management, b. 1959

*Education:*

- B.A. Management Science, University of California at San Diego, 1981

*Business Background:*

- Telos Capital Management Inc., Sr. Vice President of Portfolio Management, 01/2009 to Present
- A&M Investment Management, Sr. Vice President of Portfolio Management, 07/2007 to 12/2008
- Sherman Investment Management Inc., Owner and President, 02/1999 to 07/2007
- Sherman Asset Management, Owner of Sole Proprietorship, 01/1999 to 06/1999
- TeleSoft, Vice President, 1981 to 1991

### **ITEM 3 - DISCIPLINARY INFORMATION**

Bruce Sherman has no disciplinary history to disclose.

### **ITEM 4 - OTHER BUSINESS ACTIVITIES**

Bruce Sherman's only business is providing investment advice through TCM.

### **ITEM 5 - ADDITIONAL COMPENSATION**

Bruce Sherman's only compensation comes from his regular salary at TCM.

### **ITEM 6 - SUPERVISION**

Stefan Meierhofer is the Director, Chief Investment Officer, and Chief Compliance Officer of TCM and supervises all employees. He is responsible for supervising Bruce Sherman's activities. He monitors the advice provided by Bruce Sherman for consistency with client objectives and TCM's policies. In addition, Stefan Meierhofer reviews reports prepared by Bruce Sherman before we send them to clients. Stefan Meierhofer can be reached by calling 858-271-6350.

## **CHARLES CHAMBERLIN**

### **ITEM 2 - EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE**

**Charles Chamberlin**, Portfolio Manager, Research Analyst, b. 1976

*Education:*

- B.S. Accounting and Finance, University of Arizona, Tucson, 1997

*Business Background:*

- Telos Capital Management Inc., Portfolio Manager, Research Analyst, 01/2009 to Present
- A&M Investment Management, Portfolio Manager, Research Analyst, 06/2007 to 12/2008
- Hokanson Associates, Trader, Research Analyst, 11/2006 to 06/2007
- TD Ameritrade, Fixed Income Specialist, 01/1998 to 11/2006

*\*Professional Designations:*

Charles Chamberlin holds the following professional designations:

- Chartered Financial Analyst

### **ITEM 3 - DISCIPLINARY INFORMATION**

Charles Chamberlin has no disciplinary history to disclose.

### **ITEM 4 - OTHER BUSINESS ACTIVITIES**

Charles Chamberlin's only business is providing investment advice through TCM.

### **ITEM 5 - ADDITIONAL COMPENSATION**

Charles Chamberlin's only compensation comes from his regular salary at TCM.

### **ITEM 6 - SUPERVISION**

Stefan Meierhofer is the Director, Chief Investment Officer, and Chief Compliance Officer of TCM and supervises all employees. He is responsible for supervising Charles Chamberlin's activities. He monitors the advice provided by Charles Chamberlin for consistency with client objectives and TCM's policies. In addition, Stefan Meierhofer reviews reports prepared by Charles Chamberlin before we send them to clients. Stefan Meierhofer can be reached by calling 858-271-6350.

## **RYAN BECKHAM**

### **ITEM 2 - EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE**

**Ryan Beckham**, Assistant Portfolio Manager, b. 1984

*Education:*

- Chartered Financial Analyst, 2014
- B.S. Business Administration, University of California, San Diego, 2007
- Grossmont College, El Cajon, CA, attended 2004-2005

*Business Background:*

- Telos Capital Management Inc., Assistant Portfolio Manager, 07/2013 to Present
- Academy Securities Inc., Trading Assistant, 02/2012 to 07/2013
- Nicholas Investment Partners, Analyst, 12/2007 to 11/2011
- Vantage Point Advisors, Analyst, 06/2007 to 07/2008

*\*Professional Designations:*

Ryan Beckham holds the following professional designations:

- Chartered Financial Analyst

### **ITEM 3 - DISCIPLINARY INFORMATION**

Ryan Beckham has no disciplinary history to disclose.

### **ITEM 4 - OTHER BUSINESS ACTIVITIES**

Ryan Beckham's only business is providing investment advice through TCM.

### **ITEM 5 - ADDITIONAL COMPENSATION**

Ryan Beckham's only compensation comes from his regular salary at TCM.

### **ITEM 6 - SUPERVISION**

Stefan Meierhofer is the Director, Chief Investment Officer, and Chief Compliance Officer of TCM and supervises all employees. He is responsible for supervising Ryan Beckham's activities. He monitors the advice provided by Ryan Beckham for consistency with client objectives and TCM's policies. In addition, Stefan Meierhofer reviews reports prepared by Ryan Beckham before we send them to clients. Stefan Meierhofer can be reached by calling 858-271-6350.

# **Supplemental Disclosure for Financial Consulting & Business Development**

**Jeremy Chaffin  
Randall Whitfield  
Michelle Packer**

**Telos Capital Management, Inc.**

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**March 17, 2015**

This Supplemental Disclosure for Financial Consulting & Business Development provides information about Jeremy Chaffin, Randall Whitfield, and Michelle Packer that supplements the Telos Capital Management, Inc. brochure. You should have already received a copy of that brochure. Please contact Stefan Meierhofer if you did not receive our brochure or if you have any questions about the contents of this supplement. Additional information about Jeremy Chaffin, Randall Whitfield, and Michelle Packer is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



## Educational Background and Business Experience

**JEREMY CHAFFIN**, Vice President and Financial Consultant, b. 1972

*Education:* Certified Financial Planner, 2013; Accredited Asset Management Specialist, 2007; The Master's College, Santa Clarita, CA - Degree in History, 1994.

*Business Background:* Telos Capital Management Inc., Vice President, Financial Consultant, 01/2014 to Present; Charles Schwab & Co. Inc., Vice President, Financial Consultant, 11/1995 to 01/2014.

*\*Professional Designations:* Accredited Asset Management Specialist, Certified Financial Planner

**RANDALL WHITFIELD**, Vice President and Financial Consultant, b. 1987

*Education:* The Master's College, Santa Clarita, CA - Degree in Behavior Studies, 1991.

*Business Background:* Telos Capital Management Inc., Vice President, Financial Consultant, 11/2014 to Present; Check Capital Management Inc., Vice President, Senior Investment Officer, 04/2013 to 11/2014; RL VIP Enterprises, President – Sales and Marketing, 07/2009 to 03/2013; Charles Schwab & Co. Inc., Private Client Consultant, 12/1997 to 07/2009.

**MICHELLE PACKER**, Vice President and Financial Consultant, b. 1967

*Education:* Certified Financial Planner, 2013; The University of Georgia – Degree in Family Financial Planning, 2009

*Business Background:* Telos Capital Management Inc., Marketing Assistant, 01/2014 to Present; AXA Advisors, LLC, Registered Representative, 04/2013 to 10/2014; Unemployed, 05/2010 to 10/2010; Student, 08/2007 to 05/2010.

*\*Professional Designations:* Certified Financial Planner

## Disciplinary Information, Other Business Activities, Additional Compensation, and Supervision

Each of the individuals listed in this Supplemental Disclosure for Financial Consulting & Business Development has no disciplinary history to disclose, is not engaged in other business activities, and in addition to regular salary, may receive compensation relating to clients referred to the firm. Stefan Meierhofer is the Director, Chief Investment Officer, and Chief Compliance Officer of TCM and supervises all employees. Mr. Meierhofer can be reached by calling 858-271-6350.

## FACTS

### WHAT DOES TELOS CAPITAL MANAGEMENT, INC. DO WITH YOUR PERSONAL INFORMATION?

#### Why?

Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.

#### What?

The types of personal information we collect and share depend on the product or service you have with us. This information can include:

- Social Security number and income
- account balances and transaction history
- assets and risk tolerance

When you are *no longer* our customer, we continue to share your information as described in this notice.

#### How?

All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons Telos Capital Management, Inc. chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does Telos Capital Management, Inc. share?	Can you limit this sharing?
For our everyday business purposes - as permitted by law	YES	NO
For our marketing purposes - to offer our products and services to you	YES	NO
For joint marketing with other financial companies	NO	We don't share
For our affiliates' everyday business purposes - information about your transactions and experiences	NO	We don't share
For our affiliates' everyday business purposes - information about your creditworthiness	NO	We don't share
For nonaffiliates to market to you	NO	We don't share

#### Questions?

Call 858-271-6350 or go to [www.telosinc.com](http://www.telosinc.com)

## WHO WE ARE

Who is providing this notice?	Telos Capital Management, Inc.
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## WHAT WE DO

How does Telos Capital Management, Inc. protect my personal information?	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.
How does Telos Capital Management, Inc. collect my personal information?	<p>We collect your personal information, for example, when you</p> <ul style="list-style-type: none"> <li>• seek advice about your investments</li> <li>• enter into an investment advisory contract</li> <li>• tell us about your investment or retirement portfolio</li> <li>• tell us about your investment or retirement earnings</li> <li>• give us your contact information</li> </ul> <p>We also collect your personal information from other companies</p>
Why can't I limit all sharing?	<p>Federal law gives you the right to limit only:</p> <ul style="list-style-type: none"> <li>• sharing for affiliates' everyday business purposes - information about your creditworthiness</li> <li>• affiliates from using your information to market to you</li> <li>• sharing for nonaffiliates to market to you</li> </ul> <p>State laws and individual companies may give you additional rights to limit sharing.</p>

## DEFINITIONS

<b>Affiliates</b>	<p>Companies related by common ownership or control. They can be financial and nonfinancial companies.</p> <ul style="list-style-type: none"> <li>• <i>Telos Capital Management, Inc. has no affiliates</i></li> </ul>
<b>Nonaffiliates</b>	<p>Companies not related by common ownership or control. They can be financial and non-financial companies.</p> <ul style="list-style-type: none"> <li>• <i>Telos Capital Management, Inc. does not share with nonaffiliates so they can market to you</i></li> </ul>
<b>Joint Marketing</b>	<p>A formal agreement between nonaffiliated financial companies that together market financial products or services to you.</p> <ul style="list-style-type: none"> <li>• <i>Telos Capital Management, Inc. doesn't jointly market</i></li> </ul>