



## Form ADV Part 2A • Client Brochure



### ITEM 1: COVER PAGE

This brochure provides information about the qualifications and business practices of The Colony Group, LLC. If you have any questions regarding the contents of this brochure, please do not hesitate to contact our Chief Compliance Officer, Vincent Gratch, by telephone at (617) 723-8200 or by email at [vgratch@thecolonygroup](mailto:vgratch@thecolonygroup). 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.

Additional information about The Colony Group is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The Colony Group's SEC number is 801-72862. In Florida, Colony is registered to do business as The Colony Group of Florida, LLC.

Registration with the SEC does not imply a certain level of skill or training.

The Colony Group, LLC  
[www.thecolonygroup.com](http://www.thecolonygroup.com)

#### Massachusetts

Two Atlantic Ave.  
Boston, MA 02110  
(800)758-8200

120 Longwater Dr.  
Norwell, MA 02061  
(800)758-8200

#### Virginia

7100 Forest Ave.  
Richmond, VA 23226  
(804)648-3500

#### Florida

5150 Tamiami Trail North  
Naples, FL 34103  
(239)300-0434

#### New York

950 Third Ave,  
New York, NY 10022  
(914)730-3500

20 Bedford Rd.  
Armonk, NY 10504  
(914)730-3500

## **ITEM 2: MATERIAL CHANGES**

This Item discusses only the material changes that have occurred since The Colony Group's last annual update, filed in March, 2014.

As explained in more detail in Item 4 below, on July 1, 2014, two principals of Long Wharf Investors Inc., a Boston-based investment advisory firm, joined The Colony Group. Almost all of the clients of Long Wharf Investors hired The Colony Group as their investment advisor.

As explained in more detail in Item 4 below, on March 1, 2015, The Colony Group acquired the business of CapGroup Advisors, LLC, a Virginia-based investment advisory firm. Clients of CapGroup Advisors were formally notified of the acquisition and assigned their advisory agreements to The Colony Group.

### ITEM 3: TABLE OF CONTENTS

ITEM 1: COVER PAGE .....	1
ITEM 2: MATERIAL CHANGES .....	2
ITEM 3: TABLE OF CONTENTS .....	3
ITEM 4: ADVISORY BUSINESS .....	5
A. Description of the Advisory Firm .....	5
B. Types of Advisory Services .....	6
C. Client-Tailored Advisory Services .....	7
D. Wrap Fee Programs.....	7
E. Assets Under Management (AUM).....	7
ITEM 5: FEES AND COMPENSATION .....	8
A. Fee Schedule for Advisory Services .....	8
B. Payment of Fees.....	9
C. Clients Responsible for Custodial and Brokerage Fees.....	11
D. Prepayment of Fees .....	11
E. Outside Compensation for the Sale of Securities to Clients .....	11
ITEM 6: PERFORMANCE-BASED FEES .....	11
ITEM 7: TYPES OF CLIENTS .....	12
ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS .....	13
A. Methods of Analysis and Risk of Loss .....	13
B. Material Risks Involved .....	14
C. Unusual Risks of Specific Securities .....	14
ITEM 9: DISCIPLINARY INFORMATION .....	15
ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....	15
A. Registration as a Broker-Dealer or Broker-Dealer Representative .....	15
B. Registration as a Futures Commission Merchant, Commodity Pool Operator, Commodity Trading Advisor, or an Associated Person of the Foregoing Entities.....	15
C. Relationships Material to Advisory Business .....	15
D. Selection of Other Investment Advisors and Compensation Received .....	17
ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS .....	18
A. Description of Code of Ethics .....	18

B.	Recommendations Involving Material Financial Interests .....	18
C.	Investing Related Persons' Money in the Same Securities as Clients .....	19
D.	Trading Securities At/Around the Same Time as Client's Securities .....	19
ITEM 12:	BROKERAGE PRACTICES .....	19
A.	Factors Used to Select Custodians and/or Broker-Dealers .....	20
B.	Trade Aggregation .....	24
ITEM 13:	REVIEW OF ACCOUNTS .....	26
A.	Frequency and Nature of Periodic Reviews and Who Makes Those Reviews .....	26
B.	Other Reviews .....	26
C.	Content and Frequency of Regular Reports Provided to Clients .....	27
ITEM 14:	CLIENT REFERRALS AND OTHER COMPENSATION .....	27
A.	Economic Benefits Provided by Third Parties for Advice Rendered to Clients .....	27
B.	Compensation to non-Supervised Persons for Client Referrals .....	30
C.	Other Compensation .....	33
ITEM 15:	CUSTODY .....	33
ITEM 16:	INVESTMENT DISCRETION .....	34
ITEM 17:	VOTING CLIENT SECURITIES .....	34
ITEM 18:	FINANCIAL INFORMATION .....	35
A.	Balance Sheet .....	35
B.	Financial Conditions Reasonably Likely to Impair Ability to Meet Contractual Commitments to Clients .....	35
C.	Bankruptcy Petitions in Previous Ten Years .....	36

## ITEM 4: ADVISORY BUSINESS

### A. Description of the Advisory Firm

The Colony Group, LLC ("Colony") is a limited liability company organized in Delaware. Colony is an investment advisory firm registered with the United States Securities and Exchange Commission ("SEC"). Colony is a successor to The Colony Group, LLC, a limited liability company organized in Massachusetts (SEC # 801-27451) ("Old Colony"), and The Colony Group of Naples, LLC, a limited liability company organized in Delaware (SEC # 801-67456) ("TCGN"). Effective October 1, 2011, clients of Old Colony and TCGN assigned their advisory agreements to Colony. Old Colony had been providing investment advisory services since 1986, while TCGN had been providing investment advisory services since 2007.

On July 1, 2014, two principals of Long Wharf Investors Inc. ("Long Wharf"), a Boston-based investment advisory firm founded in 1995, joined Colony. Almost all of the clients of Long Wharf followed the principals and hired Colony as their investment advisor, executing advisory agreements effective July 1, 2014. Long Wharf ceased doing business as an investment advisory firm and filed an ADV-W with the SEC.

On March 1, 2015, Colony acquired CapGroup Advisors, LLC (SEC # 801-66418) ("CapGroup"), a Virginia-based investment advisory firm founded in 1983. CapGroup clients assigned their advisory agreements to Colony. CapGroup ceased doing business as an investment advisory firm and filed an ADV-W with the SEC.

Colony is owned by Focus Operating, LLC ("Focus Operating"), which is owned by Focus Financial Partners, LLC ("Focus"); but it is managed by TCG Partners, LLC ("TCG Partners") pursuant to a management agreement between TCG Partners and Focus Operating. The following individuals comprise the Board of Managers of TCG Partners:

Michael J. Nathanson, JD, LL.M.  
Chairman, CEO and President

Robert J. Glovsky, JD, LL.M., CFP  
Vice Chair and Senior Financial Counselor

Stephen T. Sadler, JD, LL.M.  
Managing Director and Senior Financial Counselor

Elisabeth L. Talbot, CFA, CPA  
Managing Director and Senior Financial Counselor

Colony acquired Prosper Advisors, LLC ("Prosper") on October 1, 2013. Colony acquired Mintz Levin Financial Advisors, LLC ("MLFA") on July 1, 2012. Prosper had been providing investment advisory services since 2002, while MLFA had been providing such services since 1998.

## **B. Advisory Services**

Colony offers a full suite of wealth management services to individuals, families, institutions, and businesses. These services include investment management, financial counseling, and family office services. Colony acknowledges that it is held to a fiduciary standard of care in the delivery and performance of its services. Colony also offers sub-advisory and related services to other advisory firms.

### *Investment Management Services*

Colony calls its approach enhanced open architecture. In designing and implementing customized strategies, Colony can manage, on a discretionary or nondiscretionary basis, a broad range of institutional-quality investment strategies and vehicles.

- Proprietary equity, fixed-income, and alternative strategies
- Mutual funds and exchange-traded fund strategies
- Alternative investments and other private offerings
- Third-party separate account managers

### *Financial Counseling Services*

- Investment planning
- Retirement planning
- Tax planning
- Estate planning
- Cash flow planning
- Philanthropic planning
- Education planning
- Risk management
- Tax return preparation
- Trustee services

### *Family Office Services*

- Strategy: tax planning, wealth accumulation, estate and wealth transfer, lifestyle planning
- Investment: portfolio strategy, manager selection, aggregation & coordination
- Legacy: family education, business & financial advice, philanthropy, fiduciary services
- Governance: tax compliance, risk mgt., regulatory support, cash mgt. & recordkeeping

### *Sub-Advisory and Related Services to other Advisory Firms*

Colony may offer investment advisory services to other registered investment advisory firms and their clients. This may include discretionary management and/or the provision of multiple asset class model portfolios that other advisors may use in managing investment accounts for their clients. In some instances, Colony may offer supplementary support services to other advisors, including: administrative assistance as it relates to the advisor-custodian relationship; access to portfolio accounting and reporting services; client questionnaires and investment policy statement

templates; samples of advisory agreement templates; assistance with accessing investment offerings generally available only to clients of investment advisors; and collection and remittance of net fees to investment advisors.

### **C. Client-Tailored Advisory Services**

#### *Investment Management Services*

Colony tailors its investment management services to the individual needs of its clients. Colony seeks to understand each client's goals, objectives, time horizon, risk tolerance, and tax position. The client and Colony then decide on an investment plan that may include the utilization of Colony's fixed-income, mutual fund, exchange-traded fund, and proprietary equity strategies; alternative investments and other private offerings; third-party separate account managers; and supervision of certain non-discretionary accounts and assets. With respect to accounts managed on a discretionary basis, a client is free to impose reasonable restrictions with respect to the management of his/her accounts.

#### *Financial Counseling Services*

Each client's needs are different, and Colony tailors its financial counseling services to the specific needs of each client. Each financial counseling client is provided a counselor whose role is to facilitate the provision of financial counseling services that are tailored to the client's unique circumstances.

#### *Family Office Services*

Colony can help high net worth families manage their wealth across generations. It can guide a family through complex technical and family issues. It will organize and choreograph the intricate elements of a family's legacy by teaming with the family's other advisors to implement a wealth management strategy tailored to the family's unique needs and objectives. Through a dedicated team, a family will have the benefit of Colony's full array of wealth management services and access to many money managers and investment solutions.

### **D. Wrap Fee Programs**

Colony does not participate in or sponsor wrap fee programs, but it does offer certain of its investment strategies on select custodial platforms.

### **E. Assets Under Management (AUM)**

Colony has the following assets under management:

Discretionary AUM	\$3,664,000,000
Non-Discretionary AUM	\$1,287,000,000

Date Calculated: 08/31/15

## ITEM 5: FEES AND COMPENSATION

### A. Fee Schedule for Advisory Services

*Investment Management Services – Individuals, Families, and other Non-Institutional Clients*

Assets Under Management	Annual Fee
First \$2,000,000	1.00%
Next \$3,000,000 or portion thereof	0.90%
Next \$5,000,000 or portion thereof	0.80%
Next \$20,000,000 or portion thereof	0.60%
Next \$20,000,000 or portion thereof	0.50%
Over \$50,000,000	negotiable

Fees for Colony's investment management services are separate from and in addition to any transaction or similar fees/expenses and the fees/expenses charged by any custodian, broker, subadvisor, mutual fund, separate account manager, limited partnership, strategy consultant, or other advisor, as the case may be.

For subadvisors/strategy consultants that Colony utilizes for certain of its equity strategies, Colony collects the fee on behalf of the subadvisor/consultant and pays such subadvisor/consultant directly. The current annual fee charged by the subadvisor to Colony's Enhanced Dividend Growth Strategy is 0.50%. The current annual fee charged by the strategy consultant to Colony's Relative Trend Equity Strategy is 0.40%.

Pursuant to Colony's current standard agreement, an investment advisory agreement may be terminated at will upon 30 days' written notice. Clients are subject to a minimum annual household fee of \$5,000. Clients whose investment advisory agreements predate this policy may have alternate provisions concerning termination of such agreements as well as the minimum annual household fee. A client's other Colony advisory fees will be aggregated for the purpose of reaching the \$5,000 minimum.

Colony reserves the right to negotiate investment management fee arrangements with prospective and existing clients. As Colony offers other advisory services, *e.g.*, financial counseling, it may take into account fees paid for such services when negotiating investment management fees with clients. Colony may agree to make exceptions to its standard fee schedule, including minimum annual fees, on a case-by-case basis at its discretion.

Many investment management client relationships predated the implementation of Colony's current fee schedule. For this reason, a client's fees may be higher or lower than those reflected in the foregoing schedule. Moreover, many Colony clients originating from MLFA, Prosper, Long Wharf, and CapGroup will have fee schedules different than Colony's standard fee schedule.

In some cases, depending on the needs and complexity of the client, Colony and the client may execute an investment advisory agreement that includes the provision of a one-time financial plan

(the “Financial Plan”). The Financial Plan will be included in the engagement at no additional cost to client and should be completed within approximately 6 months of the effective date of the investment advisory agreement, subject to the availability of client and the timely cooperation of client. The Financial Plan generally will comprise the following deliverables, to the extent applicable to the client’s financial circumstances:

- Balance Sheet
- Income and Savings Summary
- Liabilities and Expenses Summary
- Asset Allocation Analysis
- Goals Analysis, including Monte Carlo simulation, Education Analysis and/or Retirement Analysis, as applicable

For Colony’s fees for ongoing financial counseling and/or tax compliances services, see below.

*Investment Management Services – Institutional Clients*

<b>Assets Under Management</b>	<b>Annual Fee</b>
First \$5,000,000	0.65%
Next \$5,000,000 or portion thereof	0.25%
Next \$15,000,000 or portion thereof	0.15%
Next \$25,000,000 or portion thereof	0.10%
Next \$50,000,000 or portion thereof	0.05%
Over \$100,000,000	negotiable

Colony does not have a minimum account/relationship size for an institutional client, but a client is subject to a minimum annual fee of \$15,000. Colony reserves the right to negotiate investment management fee arrangements with prospective and existing institutional clients. Colony may agree to make exceptions to its standard fee schedule, including minimum annual fees, on a case-by-case basis at its discretion.

*Financial Counseling Services*

A client’s fee for financial counseling services generally depends upon the complexity of the engagement and scope of work. Prior to executing an advisory agreement for the provision of financial counseling services, the client and his/her counselor will discuss the nature of the work and decide on the annual fee. The scope of work will be outlined in the advisory agreement. A fee for services in subsequent years may be reduced and will be determined based on the complexity of the engagement and scope of work. In all cases, fees for subsequent years will be agreed upon by Colony and the client.

Clients are subject to a minimum annual household fee of \$6,000. A client’s investment management fees will be aggregated with the financial counseling fee for the purpose of reaching the \$6,000 minimum.

### *Tax Compliance Services*

Colony offers tax compliance services, including preparation of tax returns, to its individual clients who receive investment management and financial counseling services. The fee for tax compliance services generally depends on the complexity of the engagement and scope of work. In some cases, tax compliance services are included in a client's financial counseling services fee.

## **B. Payment of Fees**

### *Investment Management Services*

Except as provided below, for brokerage accounts that it manages on a discretionary basis, Colony deducts its investment management fee from a client's investment account(s) held at his/her custodian. Upon engaging Colony to manage such account(s), a client grants Colony this limited authority through a written instruction to the custodian of his/her account(s). The fee generally is billed in advance on a quarterly basis. A newly-managed account is charged a fee from the start date to the end of the quarter. The fee is based on the value of the account the day prior to the start date. Thereafter, the quarterly fee is based on the market value of the account on the last business day of the previous quarter. A net deposit to a managed account that exceeds 10% of the account's prior-day value will be charged an interim fee for the remainder of the quarter.

For investments in unaffiliated limited partnerships and similar private offerings for which Colony provides advice to clients, Colony charges an advisory fee pursuant to the client's fee schedule. For these investments, as well as other outside assets that Colony advises on, clients generally authorize Colony through a letter of authorization (LOA) to deduct its advisory fee from the client's brokerage account.

In all cases, the fee(s) and manner of payment which clients pay an unaffiliated limited partnership or other private offering will depend on the specific investment offering and will be disclosed to clients in each investment's offering documents.

For accounts managed by Separate Account Managers (SAMs), Colony generally deducts its fee from such accounts. Each SAM deducts its management fee pursuant to its agreement and arrangement with the client.

Clients generally are required to have their investment management fees deducted from their accounts. In some cases, however, Colony will directly bill a client for investment management fees if it determines that such billing arrangement is appropriate given the circumstances.

As some of Colony's clients originated from the merging of advisory firms, some such clients have maintained their previous billing structure and terms, including rates, treatment of interim deposits, quarterly valuation dates, and whether billing occurs in advance or arrears.

### *Financial Counseling Services*

A client may pay his/her financial counseling fee quarterly or annually, at the client's option. If the client also has an investment management relationship with Colony, he/she may, in writing, instruct Colony to deduct the financial counseling fee from his/her investment account. Likewise, a client

that engages Colony to prepare and file his/her tax return(s) may grant Colony the authority to deduct the tax preparation fee from his/her investment account.

#### *Tax Compliance Services*

If the fee for tax services is not included in a client's financial counseling fee, the fee is directly billed to the client upon completion of the services, for example, upon the filing of a tax return.

### **C. Clients Responsible for Custodial and Brokerage Fees**

In connection with Colony's management of an account, a client will incur fees and/or expenses separate from Colony's management fee. These additional fees may include transaction charges and the fees/expenses charged by any custodian, broker, subadvisor, mutual fund, separate account manager, limited partnership, or other advisor. The client is responsible for all such fees and expenses. Please see Item 12 of this brochure regarding brokerage practices.

### **D. Prepayment of Fees**

As noted in Item 5(B) above, investment management fees generally are paid in advance. Except as provided below, upon the termination of a client's investment advisory relationship, Colony will issue a refund equal to any unearned management fee for the remainder of the quarter. The client may specify how he/she would like such refund issued (*i.e.*, a check sent directly to the client or a check sent to the client's custodian for deposit into his/her account).

For unaffiliated limited partnerships and similar private offerings, the ability of a client to obtain a refund for any prepaid advisory fee to Colony will depend on the specific investment offering.

### **E. Outside Compensation for the Sale of Securities to Clients**

Colony does not accept compensation for the sale of securities or other investment products.

## **ITEM 6: PERFORMANCE-BASED FEES**

In general, Colony does not charge performance-based fees for its management services. Nevertheless, Colony is the investment manager of a limited partnership, Colony Multi-Strategy Fund, L.P. (the "Partnership"). Moreover, Colony Funds, LLC, a subsidiary of Colony (the "General Partner"), serves as the general partner to the Partnership. The General Partner has discretionary authority to manage the Partnership's activities. Currently, limited partnership interests in the Partnership are available only to Accredited Investors that also are Qualified Clients, as such terms are defined in Rule 501 of Regulation D of the Securities Act of 1933, and Rule 205-3 of the Investment Advisers Act of 1940, respectively.

Colony is responsible for the Partnership's day-to-day portfolio management under the general supervision of the General Partner. Previously, the General Partner and Colony had delegated these responsibilities to Palmer Square Capital Management LLC, which served as the Partnership's subadvisor until October 1, 2015.

Pursuant to the Partnership's fund documents, at the end of the fiscal year, the General Partner may receive a performance fee based on the increase to a limited partner's capital account if such increase

exceeds a pre-defined hurdle. The possibility of receiving a performance-based fee may create an incentive for Colony and the General Partner to make investments on behalf of the Partnership that are riskier or more speculative than would be the case in the absence of such an arrangement.

## **ITEM 7: TYPES OF CLIENTS**

### *Investment Management Services*

Colony provides investment management services to individuals, family offices, trusts, institutions, charitable foundations, and retirement/profit-sharing plans.

Because it believes that diversification within portfolios is important, Colony prefers that accounts invested in certain of its investment strategies maintain a balance that will allow the portfolio manager to properly diversify the account. As a guideline, Colony prefers that equity or fixed income accounts have a starting value of no less than \$500,000. In all cases, the client and his/her financial counselor will review the account(s) to be managed to determine the optimal account size for each.

The minimum account or asset size for an alternative investment, private offering, or third-party separate account varies depending on the manager, investment vehicle, and/or platform.

While there are no minimum account size requirements, clients generally are subject to a minimum annual household fee as discussed further in Item 5 above.

### *Financial Counseling Services*

Colony offers financial counseling services to individuals. Colony also offers financial counseling services to individuals through corporate-sponsored financial counseling relationships between Colony and the individuals' employer. Colony has corporate-sponsored relationships in place with several companies.

### *Tax Compliance Services*

Colony offers tax compliance services to individuals. Colony also offers tax compliance services to individuals through corporate-sponsored relationships between Colony and the individuals' employer. Colony has corporate-sponsored relationships in place with several companies.

### *Employee Seminars and Workshops*

Colony offers financial educational seminars to corporations to help their employees learn about investing, benefits, taxes, retirement planning, education funding, equity incentive compensation, insurance, and estate planning. Colony can customize its seminars and workshops specifically for a corporation's benefits programs and employee needs.

## ITEM 8:

### METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS

Colony has an investment committee that includes principals, analysts, portfolio managers, and financial counselors of the firm. Colony also has several investment sub-committees, including asset allocation, public market strategies, private strategies, and proprietary strategies committees. Sub-committees generally meet monthly and report to the investment committee, which generally meets on a quarterly basis. The investment committee is chaired by Colony's Chief Investment Officer.

#### A. Methods of Analysis and Risk of Loss

##### *Asset Allocation*

- Colony engages a consultant to develop capital market assumptions (CMAs) for a variety of asset classes. The consultant provides forecasts for expected return, volatility, and correlations across a wide universe of asset classes.
- CMAs are inputted into efficient frontier asset allocation software. This software is used to optimize clients' strategic allocations.
- Quantitative and qualitative factors are used to determine clients' tactical positioning relative to their strategic asset allocation. Colony measures factors such as valuation, growth, and relative price strength for most asset classes. Decision making is also informed by third-party research.

##### *Public Market Strategies and Private Strategies*

- Colony performs due diligence on a range of products, including, but not limited to, mutual funds, exchange-traded funds, separate account managers, exchange traded notes, and limited partnerships.
- Quantitative analysis is used to measure a manager's risk-adjusted performance relative to an appropriate peer group. Colony looks at factors such as return, internal rate of return, volatility, upside and downside capture, Sharpe ratio, information ratio, semi-variance, drawdown, and others.
- Qualitative analysis focuses on a manager's process and philosophy. The goal of this analysis is to determine whether a strategy is able to generate superior risk-adjusted results and if these results are repeatable. In addition, particular attention is paid to compliance and operational due diligence of the organization managing the strategy.

##### *Proprietary Strategies*

- Quantitative analysis is used to rank securities against a universe of peers. Colony engages a third-party quantitative research firm to assist with its quantitative analysis. The ranking system weights quantifiable data such as free cash flow, return on capital, dividend yield, earnings momentum, relative price movement, and other factors. Colony typically performs further fundamental analysis before purchasing a particular security for client accounts.
- Fundamental analysis is used to attempt to measure a security's intrinsic value by examining related economic, financial, and other qualitative and quantitative factors. This method involves the analysis of factors that can affect a security's value, including macroeconomic factors, such as the overall economy and industry conditions, and company-specific factors, such as its financial condition, management, and competitive advantages.

Investing in securities involves a risk of loss. A client can lose all or a substantial portion of his/her investment. A client should be willing to bear such a loss. Some investments are intended only for sophisticated investors and involve a high degree of risk.

## **B. Material Risks Involved**

1. A risk in using quantitative analysis is that the models may be based on assumptions that prove to be incorrect.
2. Risks associated with fundamental analysis include the ability to forecast future cash flow accurately and using appropriate discount rates to value securities.
3. With regard to the use of other managers, risks include the possibility of manager turnover, style drift, underperformance, size constraint, tax inefficiency, compliance, and fee changes. In addition, for alternative investments, private offerings, and certain other third-party managers, potential risk factors include lack of liquidity, lack of transparency, layering of fees, and other risks as identified by such managers in their disclosure documents.
4. With respect specifically to Colony Multi-Strategy Fund and other alternative investment vehicles that may charge performance fees, the possibility of receiving a performance-based fee may create an incentive for the manager to make investments that are riskier or more speculative than would be the case in the absence of such an arrangement.
5. For securities that Colony purchases and sells on behalf of clients, its analysis methods rely on the assumption that the companies whose securities it purchases and sells, the rating agencies and research firms that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While Colony is alert to indications that data may be incorrect, there is always a risk that an analysis may be compromised by inaccurate or misleading information.
6. In addition, investing in securities always involves a risk of loss that clients must be aware of and be willing to accept as a possible outcome of investing in securities.

## **C. Unusual Risks of Specific Securities**

Colony does not primarily or solely recommend a particular type of security, investment, or strategy. Generally, Colony designs a diversified portfolio of investments for its clients. In customizing an investment plan for a client, Colony considers the client's unique circumstances, objectives, risk tolerance, aspirations, personal preferences, future needs, and ongoing commitments.

### *Colony Hedged Equity-Income Strategy*

When appropriate, Colony may construct a portfolio consisting primarily of exchange-traded funds ("ETFs"), which may include an inverse exchange-traded fund. When utilizing this strategy, Colony emphasizes ETFs on which exchange-traded call options currently are available. There are numerous risks associated with an options trading strategy. In focusing on the creation of cash flow from writing (selling) covered call options on some or all of the portfolio's ETF holdings, a client assumes the obligation or risk of selling a position at a specified price, which generally is higher than where the position currently is trading. Because of this risk, Colony provides each client

interested in the strategy the “Characteristics and Risks of Standardized Options” (the “Pamphlet”), written and published by the Options Clearing Corporation. Colony requires that each client, prior to investing in the Hedged Equity-Income Strategy, sign a disclosure that incorporates the Pamphlet and serves as an acknowledgment that he/she has received and read the Pamphlet.

## **ITEM 9: DISCIPLINARY INFORMATION**

Colony has no legal or disciplinary events to report.

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

### **A. Registration as a Broker-Dealer or Broker-Dealer Representative**

Neither Colony nor any Colony employee is registered as a broker-dealer or a registered representative of a broker-dealer.

### **B. Registration as a Futures Commission Merchant, Commodity Pool Operator, Commodity Trading Advisor, or an Associated Person of the Foregoing Entities**

Neither Colony nor any Colony employee is registered as a futures commission merchant, commodity pool operator, commodity-trading advisor, or an associated person of any of the foregoing entities.

### **C. Relationships Material to Advisory Business**

- Focus Operating & Focus

Colony is part of the Focus network of advisory firms. As such, Colony is a wholly-owned subsidiary of Focus Operating, which is a wholly-owned subsidiary of Focus. (See Item 4 above for a complete discussion of the ownership of Colony). Focus also owns other registered investment advisory firms, as well as broker-dealer firms, pension consultant firms, insurance firms, and other financial services firms (collectively, the “Focus Affiliates”). Focus Affiliates provide wealth management and benefit and investment consulting services to individuals, families, employers, and institutions. Some Focus Affiliates also manage or advise limited partnerships, private funds, or limited liability companies as disclosed on their respective Forms ADV Schedule D.

A list of the affiliated investment advisory and broker-dealer firms can be found on Colony’s Form ADV Part 1 Schedule D. Additional information about the Focus Affiliates is available on each respective firm’s Form ADV available through the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Colony’s management does not believe that its relationship with Focus Operating, Focus, or the Focus Affiliates poses a material conflict to its clients. The principals of Focus Operating and Focus Affiliates are not involved with the management of Colony.

- Pooled investment vehicle: *Colony Multi-Strategy Fund, L.P.*

As noted in Item 6 above, Colony controls Colony Funds, LLC, the General Partner to Colony Multi-Strategy Fund, L.P. The General Partner has the authority to manage the Partnership's activities. Interests in the Partnership are suitable only for sophisticated investors who do not require immediate liquidity for their investments, for whom an investment in the Partnership does not constitute a complete investment program, and who fully understand and are willing to assume the risks involved in the Partnership's investment program. Effective November 1, 2012, new limited partners must qualify as Accredited Investors (as such term is defined in Rule 501 of Regulation D promulgated by the SEC under the Securities Act of 1933) and must qualify as Qualified Clients (as such term is defined in Rule 205-3 under the Investment Advisers Act of 1940). Prior to November 1, 2012, limited partner subscriptions were limited to Qualified Purchasers (as such term is defined in the Investment Company Act of 1940, as amended, and the rules promulgated by the SEC).

Pursuant to the Partnership's fund documents, at the end of the fiscal year, the General Partner may receive a performance fee based on the increase to a limited partner's capital account if such increase exceeds a pre-defined hurdle. The possibility of receiving a performance-based fee may create an incentive for Colony and the General Partner to make investments on behalf of the Partnership that are riskier or more speculative than would be the case in the absence of such an arrangement.

None of the management agreement or any of the agreements, contracts, and arrangements between the Partnership, on the one hand, and the General Partner, Colony, and/or their respective affiliates, on the other hand, was or will be the result of arm's-length negotiations. The attorneys, accountants, and others who have performed services for the Partnership in connection with the issuance of interests, and who will perform services for the Partnership in the future, have been and will be selected by the General Partner. The General Partner and Colony are affiliates and under common control. The Partnership's fund documents contain additional information that must be reviewed by any potential investor.

- Adhesion Wealth Advisor Solutions, Inc. ("Adhesion")

CapGroup entered into an agreement with Adhesion, an investment advisory firm based in Charlotte, North Carolina, whereby CapGroup made available a series of model investment portfolios for use by a nationwide network of independent registered investment advisors for use with their clients. CapGroup received a fee from Adhesion for this service.

Adhesion provided certain advisory functions to CapGroup on behalf of certain CapGroup client accounts. These functions included trading, back-office support, and performance reporting. CapGroup paid a fee to Adhesion for each account for which it received such services.

As a result of the merging of CapGroup and Colony, and the clients of CapGroup assigning their advisory agreements to Colony, Adhesion and Colony continue to provide these services to each other.

## **D. Selection of Other Investment Advisors and Compensation Received**

Colony may utilize third-party managers and/or unaffiliated alternative investment vehicles for the purpose of providing a client an overall diversified portfolio. Colony does not receive compensation from those managers or alternative investment vehicles.

### *Direct Subadvisor*

From time to time, Colony may directly enter into subadvisory relationships with independent registered investment advisory firms ("subadvisors") on behalf of its clients pursuant to the delegation authority granted to Colony by its clients in such clients' investment advisory agreements. Subadvisors may offer investment strategies that are separate and distinct from proprietary strategies offered by Colony.

Prior to entering into a relationship, Colony performs a due diligence review of the subadvisor. This review includes, but is not limited to, the review of regulatory filings, compliance program, investment offerings, and the performance of the strategy considered. The due diligence process includes multiple conversations and may include in-person visits to the subadvisor's place of business.

When a strategy offered through a subadvisor is appropriate for a client of Colony, Colony will provide the client with the subadvisor's Form ADV Part 2A and 2B, Privacy Notice, and any other information that may be relevant or informative to the client. In addition, each client that invests in a subadvised strategy is required to acknowledge, in writing, the Colony-subadvisor relationship and the specific strategy offered through the subadvisor. The client will not engage the subadvisor directly; the client's advisory relationship remains with Colony as set forth in the client's investment advisory agreement.

Colony has a subadvisory relationship with Copeland Capital Management, LLC ("Copeland"), of Conshohocken, PA, through which Colony offers the Colony Enhanced Dividend Growth Strategy (the "Strategy"). The Strategy seeks to provide capital by holding a portfolio of stocks exhibiting dividend growth, while seeking to preserve capital by tactically exiting sectors displaying technical weakness. The stock selection process screens for stocks with five years of dividend growth that then are ranked using a quantitative model based on factors linked to the company's ability to pay and increase dividends. The portfolio holds equal-weight positions in the five top-ranked stocks in each sector with a positive technical signal. The maximum sector allocation is 25%, and cash is held if a portfolio invests in three or fewer sectors. Colony may utilize Copeland's services for those clients for whom the Strategy is appropriate. Copeland is granted limited trade-only authority on accounts invested in the Strategy.

### *Investment Consultant*

Colony has a consulting agreement with Contravisory Investment Management Inc. ("Contravisory"). Contravisory is an SEC-registered investment advisory firm based in Norwell, MA. For clients for whom it is appropriate, Colony may construct a diversified long-only technical equity portfolio that seeks to capitalize on the long-term relative price trends in the equity markets. Contravisory acts as an investment consultant and provides Colony with the investment

recommendations with respect to this strategy. A Colony client invested in this strategy has no relationship with Contravisory; his/her investment advisory relationship remains with Colony.

#### *Separate Account Managers*

Some of Colony's clients utilize separate account managers ("SAMs") for management of certain of their investment assets. Currently, these SAMs include Breckinridge Capital Advisors, Gannett Welsh & Kotler, LLC, Appleton Partners, Inc., Neuberger Berman LLC, Wedgewood Partners, Inc., Sampson Capital Advisors, Parametric Portfolio Associates LLC, Gurtin Fixed Income Management, LLC, and Holt-Smith Advisors, Inc. In addition to an advisory relationship with Colony, clients utilizing a SAM enter into an advisory agreement directly with such SAM, or through their custodian when the SAM is offered by their custodian's SAM platform. In all cases, Colony performs diligence on the SAMs, addressing whether the strategies generally are appropriate for its clients, and may assist clients with the completion of SAM forms, advisory agreements, custodial documents, etc. Management fees charged by the SAM are disclosed in each SAM's ADV 2A, a copy of which is provided to the client by the SAM. Fees also are included in the SAM's advisory agreement or in the custodian's SAM platform documents, as the case may be. Some SAMs prepare quarterly investment reports and provide them directly to the clients.

### **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

#### **A. Description of Code of Ethics**

Colony has adopted a Code of Ethics (the "Code") pursuant to SEC rule 204A-1. The Code provides that each employee place the interests of Colony's clients ahead of his/her own. The Code covers the following areas: Prohibited and Restricted Activities, Reporting Requirements, Certification of Compliance, Confidentiality, Recordkeeping Requirements, Insider Trading, and Compliance with Laws and Regulations. Colony's Chief Compliance Officer will provide a copy of the Code to any client or prospective client upon request.

#### **B. Recommendations Involving Material Financial Interests**

Under the Code, related persons of Colony are required to disclose any personal material interest they have in a security or investment that Colony recommends to clients. As explained in Item 6, Colony is the investment manager of a limited partnership, Colony Multi-Strategy Fund, L.P. Colony may recommend limited partner interests to an eligible client for whom it believes the investment would be suitable given the client's goals, objectives, risk tolerance, tax circumstances, and liquidity needs. Conflicts of interest are addressed in Item 8 and further detailed in the fund's offering documents. Prospective limited partners are encouraged to consult their own counsel as to the terms and provisions of the Partnership and its offering documents. Limited partners receive annual audited financial statements prepared in accordance with GAAP, unaudited account statements monthly from the fund's administrator, and such other reports as determined by the General Partner.

### **C. Investing Related Persons' Money in the Same Securities as Clients**

Related persons of Colony may invest in a particular investment strategy in which Colony's clients invest. Trades on behalf of clients may be aggregated with trades on behalf of a related person only if the following conditions are met:

1. The clients' trades are treated equally with trades of the related person;
2. Each related person and each client in the trade receive average execution and average commissions; and
3. The securities purchased or sold are allocated pro rata.

The account of a related person receives no favorable treatment with respect to the management of the account or the execution of transactions. Should a potential transaction on behalf of a related person likely conflict with any of Colony's clients, Colony will place its clients' interest first. Colony reviews accounts that it manages on behalf of its related persons to ensure that such accounts have not received preferred treatment.

### **D. Trading Securities At/Around the Same Time as Client's Securities**

Pursuant to the Code, related persons of Colony may invest in individual securities that also are holdings in Colony's investment strategies. Each related person is required to conduct all personal securities transactions in a manner that is consistent with the Code and to avoid any conflict of interest. No related person may misuse information about client accounts, abuse his or her position of trust and responsibility, or take inappropriate advantage of his or her position. Colony has a policy concerning individual trading by related persons that it believes is reasonably designed to minimize potential conflicts of interest with its clients. In furtherance of minimizing such potential conflicts of interest, Colony prohibits its related persons from trading, either personally or on behalf of others, in securities while in possession of material non-public information regarding such securities or communicating material non-public information to others.

### **Other: Outside Financial-Related Business Activity by a Related Person**

Colony's President & CEO, Michael J. Nathanson, serves on the Israel Bonds New Leadership Board of Directors. This is a non-compensated position. The purpose of the organization is to assist in the strengthening of Israel's economy through investments in Israel bonds.

## **ITEM 12: BROKERAGE PRACTICES**

### **A. Factors Used to Select Custodians and/or Broker-Dealers**

Colony generally recommends that its investment management clients custody their accounts/assets at unaffiliated broker/dealer custodians with which Colony has an institutional relationship. Currently, these include Charles Schwab & Co., Inc. ("Schwab"), Fidelity Brokerage Services LLC and National Financial Services LLC (together, "Fidelity"), and TD Ameritrade, Inc. ("TD Ameritrade") (generally and collectively, "BD/Custodian(s)"), all of which are "Qualified Custodians" as that term is described in Rule 206(4)-2 of the Investment Advisers Act of 1940. Each BD/Custodian

provides custody of securities, trade execution, and clearance and settlement of transactions placed by Colony.

In selecting a BD/Custodian, some of the factors that Colony considers include:

- Trade order execution and the ability to provide accurate and timely execution of trades;
- The reasonableness and competitiveness of commissions and other transaction costs;
- Access to a broad range of investment products;
- Access to trading desks;
- Technology that integrates within Colony's environment, including interfacing with Colony's portfolio management system;
- Access to research;
- Ability to provide a full range of options for account registrations for Colony's clients;
- Availability of a soft dollar or additional services program;
- A dedicated service or back office team and its ability to process seamlessly and timely a myriad of requests from Colony on behalf of its clients;
- Ability to provide Colony with access to client account information through an institutional website; and
- Ability to provide clients with electronic access to account information and investment and research tools.

Colony may place portfolio transactions through the BD/Custodian where the clients' accounts are custodied. In exchange for using the services of the BD/Custodian, Colony may receive, without cost, computer software and related systems support that allows Colony to monitor and service its clients' accounts maintained with such BD/Custodian. Additional benefits include the receipt of duplicate client confirmations and bundled duplicate statements, access to a trading desk that exclusively services institutional brokerage group participants, access to block trading services that provide the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts, and/or access to an electronic communication network for client order entry and account information. Other benefits Colony may receive include consulting, publications, and conferences on practice management, information technology, business succession, and regulatory compliance. The availability of these services from the BD/Custodians benefits Colony in that it does not have to produce or purchase them. As applicable, Colony's receipt of such benefits is reviewed to ensure compliance with Securities Exchange Act 28(e)'s safe harbor for so-called "soft dollar" arrangements and the SEC's latest guidelines.

If a client's account meets the BD/Custodian's minimum account size, Colony generally recommends that the client enter into a Prime Brokerage Services Agreement with the BD/Custodian. This agreement permits Colony, in its discretion, to trade away from that BD/Custodian when placing securities transactions on behalf of the client. The account will incur a trade-away fee from the BD/Custodian for each transaction that is executed on a trade-away basis. This fee is separate from the commission/transaction fee imposed by the broker-dealer through which the trade was executed.

Trading away may be advantageous for the client because:

- the broker-dealer may have expertise in a particular security or market;
- the broker-dealer makes a market in a particular security;

- a particular security is thinly traded; or
- the broker-dealer can identify a counter-party for a trade.

A client may pay higher net execution costs than he/she would have paid if the transaction were placed through the BD/Custodian holding his/her account. Colony reviews its arrangements with the BD/Custodians and other broker-dealers against other possible arrangements in the marketplace as it strives to achieve best execution on behalf of its clients. Colony maintains a list of broker-dealers that have been approved for trading clients' assets away from the BD/Custodians. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including, but not limited to, the following:

- a broker-dealer's trading expertise, including its ability to complete trades, execute and settle difficult trades, obtain liquidity to minimize market impact and accommodate unusual market conditions, maintain anonymity, and account for its trade errors and correct them in a satisfactory manner;
- a broker-dealer's infrastructure, including order-entry systems, adequate lines of communication, timely order execution reports, an efficient and accurate clearance and settlement process, and capacity to accommodate unusual trading volume;
- a broker-dealer's ability to minimize total trading costs while maintaining its financial health, such as whether a broker-dealer can maintain and commit adequate capital when necessary to complete trades, respond during volatile market periods, and minimize the number of incomplete trades;
- a broker-dealer's ability to provide research and execution services, including advice as to the value or advisability of investing in or selling securities, analyses and reports concerning such matters as companies, industries, economic trends and political factors, or services incidental to executing securities trades, including clearance, settlement and custody; and
- a broker-dealer's ability to provide services to accommodate special transaction needs, such as the broker-dealer's ability to execute and account for client-directed arrangements and soft dollar arrangements, participate in underwriting syndicates, and obtain initial public offering shares.

### *SEI Investments*

Prior to its merger with Colony, CapGroup, on occasion, recommended that certain clients establish custody accounts with SEI Investments and SEI Private Trust Company ("SEI"), a licensed trust company, to maintain custody of clients' assets and to effect trades for their accounts. SEI provided CapGroup with access to its adviser trading and operations services, which generally are not available to retail investors. SEI's services include research, custody, trading, and access to mutual funds and other investments that otherwise are available only to institutional investors or would require higher minimum initial investments. As a result of the merging of CapGroup and Colony, and clients of CapGroup assigning their advisory agreements to Colony, the custodial relationship is now between Colony/Colony's clients and SEI.

#### 1. Research and Other Soft Dollar Benefits

Colony uses client brokerage commissions to obtain research or other products or services. This is an economic benefit to Colony, as Colony does not have to pay for such research, products, or services. This is a conflict of interest as Colony may have an incentive to select a BD/Custodian

or other broker-dealer based upon it receiving such benefits, rather than on the client's interest in receiving most favorable execution.

Colony will enter into soft dollar arrangements in accordance with Section 28(e) of the Securities Exchange Act of 1934 and the following policy. Where more than one broker-dealer is believed to be capable of providing the best combination of price and execution with respect to a particular portfolio transaction, Colony may select a broker-dealer that furnishes products and/or research services. In addition, if Colony determines in good faith that the commission charged by a broker-dealer is reasonable in relation to the value of brokerage and research services provided by such broker-dealer, Colony may cause a client account to pay such a broker-dealer an amount of commission greater than the amount a BD/Custodian or other broker-dealer may charge, but generally within a competitive range. Research products and/or services may include:

- fundamental research reports;
- quantitative research reports;
- technical and portfolio analyses;
- pricing services;
- economic forecasting, interest rate projections and general market information (including but not limited to research and information services such as BCA, First Call, Reuters, FactSet, Bloomberg, Dow Jones News Services, Capital Markets Consulting, and similar services);
- historical database information; and
- computer hardware and software that assists Colony's investment management process, including effecting securities transactions and performing functions incidental thereto (such as clearance and settlement).

Research, products, or services received from soft dollar benefits generally serve to benefit all client accounts. Colony does not allocate soft dollar benefits to client accounts proportionately to any soft dollar credits that the accounts generate.

Colony has soft dollar agreements with Schwab and Fidelity, two of the BD/Custodians that it uses for custody of clients' accounts. It has research arrangements with other unaffiliated broker-dealers, including Credit Suisse First Boston, Barclays Capital, Bernstein & Co. LLC, William Blair & Co., Bank of America, and Morgan Stanley Smith Barney. On an annual basis, Colony reviews its arrangements with the BD/Custodians and broker-dealers by evaluating those factors previously detailed in this Item.

## 2. Brokerage for Client Referrals

Colony does not select or recommend broker-dealers based solely on whether or not it may receive client referrals from a broker-dealer or third party. Nevertheless, Colony does participate in client referral programs with Schwab, Fidelity, and TD Ameritrade which provide incentives for Colony to recommend the broker-dealer who referred a client to Colony. See Item 14 below for further discussion of these referral programs.

## 3. Client-Directed Brokerage

Generally, in the absence of specific instructions to the contrary, for brokerage accounts that clients engage Colony to manage on a discretionary basis, Colony has full discretion with

respect to securities transactions placed in the accounts. This discretion includes the authority, without prior notice to the client, to buy and sell securities for the client's account and establish and affect securities transactions through the BD/Custodian of the client's account or other broker-dealers selected by Colony. In selecting a broker-dealer to execute a client's securities transactions, Colony seeks prompt execution of orders at favorable prices.

A client, however, may instruct Colony to custody his/her account at a specific broker-dealer and/or direct some or all of his/her brokerage transactions to a specific broker-dealer.

In directing brokerage transactions, a client should consider whether the commission expenses, execution, clearance, settlement capabilities, and custodian fees, if any, are comparable to those that would result if Colony exercised its discretion in selecting the broker-dealer to execute the transactions. Directing brokerage to a particular broker-dealer may involve the following disadvantages to a directed brokerage client:

- Colony's ability to negotiate commission rates and other terms on behalf of such clients could be impaired;
- such clients could be denied the benefit of Colony's experience in selecting broker-dealers that are able to efficiently execute difficult trades;
- opportunities to obtain lower transaction costs and better prices by aggregating (batching) the client's orders with orders for other clients could be limited; and
- the client could receive less favorable prices on securities transactions because Colony may place transaction orders for directed brokerage clients after placing batched transaction orders for other clients.

In addition to accounts managed by Colony on a discretionary basis where the client has directed the brokerage of his/her account(s), certain institutional accounts that Colony manages on a non-discretionary basis are held at custodians selected by the institutional client. The decision to use a particular custodian and/or broker-dealer generally resides with the institutional client. Colony endeavors to understand the trading and execution capabilities of any such custodian and/or broker-dealer, as well as its costs and fees. Colony may assist the institutional client in facilitating trading and other instructions to the custodian and/or broker-dealer in carrying out Colony's investment recommendations.

#### 4. Trade Errors

Colony's goal is to execute trades seamlessly and in the best interests of the client. In the event a trade error occurs, Colony endeavors to identify the error in a timely manner, correct the error so that the client's account is in the position it would have been had the error not occurred, and, after evaluating the error, assess what action(s) might be necessary to prevent a recurrence of similar errors in the future.

Trade errors generally are corrected through the use of a "trade error" account or similar account at Fidelity, Schwab, or TD Ameritrade, as the case may be. In the event an error is made in a client account custodied elsewhere (e.g., UBS, MSSB, etc.), Colony works directly with the broker in question to take corrective action. In all cases, Colony will take the appropriate measures to return the client's account to its intended position.

*Fidelity* – A fee-error account is maintained. An account statement is provided by Fidelity to Colony on a monthly basis. Colony reviews and reconciles the statements to its records of trade errors. If a trade error is made, Colony generally makes the correction through a cancel-rebill process in its fee-error account. Through such corrective action, the client's account is put in the position that it would have been had there been no error. Any gain or loss resulting from market movement between the time of the error and the time of correction is absorbed by the fee-error account. Gains and losses are maintained in the fee-error account and work to offset each other. Any conflict of interest in maintaining a corrective action gain in the fee-error account is mitigated by the following: Colony's stringent trading procedures are designed to prevent trade errors; errors are corrected upon discovery; Colony's CIO and CCO must review the error and sign off on the corrective action; and Colony assumes the risk of the market movement of the security upward or downward, so there is an incentive to avoid trade errors.

*Schwab* – A trade correction account is maintained at Schwab. In a process similar to that used at Fidelity, Colony generally processes a cancel-rebill for a trade error. Through such corrective action, the client's account is in the position that it would have been in had no error been made.

The treatment of any resulting gain or loss is dependent upon the amount of such gain or loss. A gain or loss of up to \$99.99 is maintained or covered by Schwab. If the corrective action results in a loss of \$100 or more, Schwab sends Colony an invoice for the difference between \$100 and the actual loss, which Colony pays out of its operating account. If the corrective action results in a gain of \$100 or more, Schwab's policy is to donate any gain of \$100 and over to charity.

As it does with Fidelity, Colony assumes the risk of market movement of the security, and thus has an incentive to avoid trade errors.

*TD Ameritrade* – An error account is maintained with TD Ameritrade. The cancel-rebill and corrective action processes are substantially the same as described above in connection with Fidelity and Schwab. Through such corrective action, the client's account is in the position that it would have been in had no error been made.

Any resulting gain is automatically swept to a separate TDA error account and subsequently donated to the American Red Cross or other 501(c)(3) charity. If the corrective action results in a loss generally of \$100 or more, Colony is responsible for such loss and makes arrangements to reimburse TDA.

As it does with Fidelity and Schwab, Colony assumes the risk of market movement of the security, and thus has an incentive to avoid trade errors.

In the event that a trade error cannot be processed at the BD/Custodian through a cancel-rebill process, Colony endeavors to ensure that its corrective action is timely and accurate, and that it places the client's account in the originally intended position.

## **B. Trade Aggregation**

### *Balancing the Interests of Multiple Client Accounts*

Colony may manage multiple accounts with similar investment objectives and strategies or may manage accounts with different objectives or strategies that may trade in the same securities.

Despite these similarities, Colony's portfolio decisions about each client's investments and the performance resulting from these decisions may differ from those of other clients.

#### *Allocating Investment Opportunities*

Colony will not necessarily purchase or sell the same securities for client accounts at the same time or in the same proportionate amounts for all eligible clients. It is expected, however, that client accounts with similar objectives may trade in the same securities at the same time.

Colony will allocate investment and trading opportunities (including the sequence of placing orders if not "batched") in a manner believed by Colony to be fair and equitable to each client. In making these allocations, Colony will take into account the following factors:

- the clients' investment objectives and strategies;
- the composition, size, and characteristics of the account;
- the cash flows and amount of investment funds available to each client;
- the amount already committed by each client to a specific investment;
- each client's risk tolerance and the relative risk of the investment; and
- the marketability of the security being considered.

Colony may deviate from strictly pro rata allocation, when appropriate, taking into account the following considerations:

- to avoid creating odd lot positions in any account;
- to allocate a smaller portion to those accounts for which the purchased security would be a peripheral investment and a larger portion to those accounts for which the security would be a core investment;
- whether the purchased security is especially appropriate for accounts with certain investment goals or risk tolerances;
- to satisfy demand with respect to an account's cash position relative to its portfolio (*i.e.*, to allocate a small portion to accounts with less cash or liquidity and a greater portion to accounts with more or highly liquid investments; and
- whether a proportionate allocation would, given the size of a client account, result in a position that is too small to be meaningful or too large to maintain an appropriate level of diversification.

If it is not possible in a single transaction or at a single price to affect trades in a particular security that is appropriate for multiple accounts, Colony may, if feasible, compute and give to each participating client account the average price for that day's transactions in the security.

#### *Batching Orders*

When the same investment decision is made for more than one client on the same day, Colony may place orders to buy or sell the same securities for a number of clients. Whenever possible, orders to purchase or sell the same security for multiple accounts are aggregated. All accounts that participate in an aggregated transaction shall participate on a pro rata basis. Colony will not aggregate investment transactions for accounts unless the transaction is consistent with the terms of the applicable investment advisory agreement and each account's investment objectives, restrictions, and policies.

## ITEM 13: REVIEW OF ACCOUNTS

### A. Frequency and Nature of Periodic Reviews and Who Makes Those Reviews

Colony performs regular reviews of the accounts it manages on behalf of its clients. Each account is managed by one of several portfolio managers, whose review responsibilities include the following:

- review the account's securities for price changes, volume, and relevant news;
- compare the account's allocation with stated goals;
- review holdings and consider alternatives;
- monitor the size of individual securities relevant to their sectors, asset classes, and overall account size;
- analyze an account's composition and performance, income, appreciation, gains/losses, and asset allocation; and
- assess its performance.

A client's counselor also is responsible for reviewing his/her managed accounts. Counselor reviews are conducted quarterly. The review seeks to ensure that the account is consistent with the client's investment objectives and guidelines, the investment strategy remains suitable for the client, and any material changes with respect to the account or client have been incorporated. Counselors also review the clients' investment management billing rates.

### B. Other Reviews

Colony's Chief Compliance Officer may perform random account reviews. These reviews cover various topics, including, but not limited to, comparing an account's strategy and/or allocation to the account's stated objectives, reviewing commission and transaction costs borne by the account, and reviewing the billing rate and charges.

The review of a financial counseling relationship is ongoing and involves revisiting goals, assessing the progress in achieving goals, and redefining strategies and goals where necessary. Counselors communicate with clients regularly. Such communication generally involves in-person meetings, phone calls, letters, and/or email.

### C. Content and Frequency of Regular Reports Provided to Clients

#### *Investment Management Accounts*

Colony generates and provides written investment reports to its investment management clients on a quarterly basis. The reports include performance, income/expenses, cash flow, realized gains/losses, and an appraisal. Colony also prepares a quarterly market commentary letter and provides a copy to its clients. Moreover, each client receives or has access to account statements from the qualified custodian of his/her account at least quarterly. Colony urges all investment management clients to compare the investment reports received from Colony with the account statements from their custodians.

## ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

### A. Economic Benefits Provided by Third Parties for Advice Rendered to Clients

Fidelity and Schwab also offer other services intended to help Colony manage and further develop its business enterprise. These services may include: (1) educational conferences and events; (2) technology, compliance, legal, and business consulting; (3) publications and conferences on practice management and business succession; and (4) access to employee benefits providers, human capital consultants, and insurance providers. They may also provide other benefits such as educational events that benefit its clients or occasional business entertainment of Colony personnel. Fidelity and Schwab may make available, arrange and/or pay third-party vendors for these types of services rendered to Colony. Fidelity and Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to Colony. The availability of services from Fidelity and Schwab benefits Colony as it does not have to produce or purchase them. In evaluating whether to recommend or require that clients custody their assets at Fidelity or Schwab, Colony may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers and not solely consider the nature, cost, or quality of custody and brokerage services offered by Fidelity or Schwab, which may create a potential conflict of interest. Colony recognizes this potential conflict of interest but believes that its selection of Fidelity or Schwab (when selected) as a custodian and broker-dealer is in the best interests of its clients, as its selection primarily is supported by the scope, quality, and price of their custodial and brokerage services (based on the factors discussed above – see “Factors Used to Select Custodians and/or Broker-Dealers”) and not the services that benefit only Colony. Moreover, Colony reviews and evaluates its arrangements with Fidelity and Schwab against other possible arrangements in the marketplace.

Schwab’s support services – provided by Schwab Advisor Services – generally are available on an unsolicited basis (Colony does not have to request them) and at no charge so long as at least \$10 million in Colony’s clients’ assets are held in accounts custodied at Schwab. The receipt of support services may give Colony an incentive to recommend that its clients’ accounts be held at Schwab in order to meet the minimum. As explained above, Colony recognizes this potential conflict of interest but believes its clients’ interests are well-served with custody and brokerage services provided by Schwab.

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

Through participation in the Program, Colony may recommend TD Ameritrade to clients for custody and brokerage services. There is no direct link between Colony’s participation in the Program and the investment advice it gives to its clients, although Colony 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 Colony 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 Colony by third-party vendors. TD Ameritrade may also have paid for business consulting and professional services received by Colony's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit Colony but may not benefit its client accounts. These products or services may assist Colony in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help Colony manage and further develop its business enterprise. The benefits received by Colony 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, Colony endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Colony or its related persons in and of itself creates a potential conflict of interest and may indirectly influence Colony's choice of TD Ameritrade for custody and brokerage services.

#### *TD Ameritrade – Additional Services*

TD Ameritrade and Colony have entered into an Additional Services Agreement whereby TD Ameritrade makes available certain products, research, services or other economic benefits ("Additional Services") to Colony that may or may not be offered to other independent investment advisors participating in the program. TD Ameritrade provides the Additional Services to Colony in its sole discretion and at its own expense; Colony does not pay any fees to TD Ameritrade for the Additional Services. TD Ameritrade and Colony have entered into a separate agreement ("Additional Services Addendum") to govern the terms of the provision of the Additional Services.

This is *not* a soft dollar arrangement or program. The provision of such Additional Services falls outside of the soft dollar safe harbor in Section 28(e) of the Securities Exchange Act of 1934; it is *not* based on the number or amount of securities transactions executed through TD Ameritrade, and such Additional Services do not consist of fees, commissions, or other remuneration contingent on the execution of securities transactions or the utilization of any other service or product.

Nonetheless, Colony's receipt of Additional Services, however, raises potential conflicts of interest. In providing Additional Services to Colony, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, Colony's client accounts maintained with TD Ameritrade.

TD Ameritrade has the right to terminate the Additional Services Addendum with Colony, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TD Ameritrade, Colony may have an incentive to recommend to its clients that the assets under management by Colony be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade.

The receipt of Additional Services does not diminish Colony's duty to act in the best interest of its clients, including to duty seek best execution of trades for client accounts. Colony reviews its relationship with TD Ameritrade on an annual basis.

Currently, such Additional Services includes the following:

1. Two (2) Bloomberg License Fees through the Bloomberg Service which is used by Colony for the purpose of conducting fixed income and other research for its in-house investment analysts and portfolio managers in order to manage client portfolios. Appurtenant to the Bloomberg Service are Bloomberg Entitlement Fees. Client portfolios benefit from Colony's use of Bloomberg's service. This is an economic benefit to Colony whereby TD Ameritrade pays Bloomberg up to \$41,000 on an annual basis on behalf of Colony; and
2. Gimme Credit. This consists of daily research reports with comprehensive coverage of investment grade and high yield bonds and debt market and credit analysis. Client portfolios benefit from Colony's use of Gimme Credit's service. This is an economic benefit to Colony whereby TD Ameritrade pays Gimme Credit \$12,000 on an annual basis on behalf of Colony.

Both the Bloomberg and Gimme Credit research services are provided to Colony for a one-year term, after which time TD Ameritrade and Colony may allow for their renewal pursuant to the terms of the Additional Services Agreement.

#### *Fidelity – Support Services Agreement*

Colony has entered into an agreement with eMoney Advisor, Inc. ("eMoney") to license certain technology products and services from eMoney (the "eMoney Services"). eMoney is an affiliate of Fidelity. The specific eMoney service in this arrangement is the eMX Pro Financial Planning Software, which assists Colony in rendering financial planning services to its clients. This software helps Colony deliver its financial planning services efficiently and aids in its communication with clients.

As a part of its overall business relationship with Colony, Fidelity has agreed to subsidize a portion (30%) of the cost of the eMoney Services (the "Subsidy," which currently totals approximately \$29,000 annually). As a result of the Subsidy, Colony may have a potential conflict of interest with respect to its decision to use Fidelity for custody, execution, and clearing for client accounts, and Colony may have a potential incentive to suggest the use of Fidelity and its affiliates to its advisory clients.

Entering into a contractual relationship with eMoney does not limit Colony's duty to select brokers on the basis of best execution, nor does receiving the Subsidy. Colony must continue to act in the best interest of its clients, and Colony reviews its relationship with Fidelity on an annual basis.

While Fidelity may provide the Subsidy, it is not a party to the contract between Colony and eMoney. Furthermore, there is no form of legal partnership, agency, affiliation, or similar relationship between Colony and Fidelity, nor is such a relationship created or implied by the provision of the Subsidy.

#### *Recognitions and Awards from Unaffiliated Financial-Related Institutions*

Colony may receive awards or recognitions from unaffiliated rating services, companies, and/or publications. Colony receives no compensation or other financial benefits in receiving an award or recognition. Awards or recognitions should not be construed by a client or prospective client as a guarantee that he/she will experience a certain level of results if Colony is engaged, or continues to be engaged, to provide investment advisory services. They should not be construed as a current or past endorsement of Colony by any of its clients. Awards or recognitions generally are based on information prepared and/or submitted by Colony.

## **B. Compensation to Non-Supervised Persons for Client Referrals**

### *Schwab Advisor Network*

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

Colony, and not the client, generally pays Schwab a Non-Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from, Schwab. The Schwab Non-Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The fee is higher than the Participation Fee Colony generally would pay in a single year. Therefore, Colony has an incentive to recommend that the referred client's accounts be held in custody at Schwab.

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

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

Colony nevertheless acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for Colony's other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

#### *TD Ameritrade AdvisorDirect Program*

Colony receives client referrals from TD Ameritrade through Colony's participation in the TD Ameritrade AdvisorDirect Program (the "Referral Program"). TD Ameritrade is an SEC-registered broker-dealer independent of and unaffiliated with Colony. TD Ameritrade has established the Referral Program as a means of referring its brokerage customers and other investors seeking fee-based personal investment management to independent investment advisors. TD Ameritrade does not supervise Colony and has no responsibility for Colony's management of client portfolios or Colony's other advice or services. In addition to meeting the minimum eligibility criteria for selection for participation in the Referral Program, Colony may have been selected based on the amount and profitability to TD Ameritrade of the assets in, and trades placed for, Colony's clients' accounts maintained at TD Ameritrade.

Colony's participation in the Referral Program may raise potential conflicts of interest. TD Ameritrade will most likely refer clients through the Referral Program to investment advisors that encourage their clients to custody their assets at TD Ameritrade. Colony pays TD Ameritrade a participation fee on all referred client accounts that are maintained in custody at TD Ameritrade. Colony will also pay TD Ameritrade the fee on any management fees received by Colony from any of a referred client's family members, including a spouse, child, or any other immediate family member who resides with the referred client and who hired Colony on the recommendation of such referred client. The participation fee is a percentage, which shall not exceed 25%, of the investment management fee the client owes to Colony. The fee is billed to Colony quarterly.

The participation fee is paid by Colony, not the client. Colony will not charge clients referred through the Referral Program fees higher than Colony's standard fee schedule offered to other clients or otherwise pass referral fees paid to TD Ameritrade through to its clients.

Colony has agreed not to solicit clients referred through the Referral Program to transfer their brokerage accounts from TD Ameritrade or establish brokerage or custody accounts at other custodians other than when its fiduciary duties require it to recommend other broker-dealers or custodians. For accounts of Colony's clients maintained in custody at TD Ameritrade, TD Ameritrade's fees for trades executed at other broker-dealers are in addition to the other broker-dealer's fees.

Thus, Colony may have an incentive to cause trades to be executed through TD Ameritrade rather than through another broker-dealer and will factor in the potential for additional fees when examining this arrangement with others in the marketplace to ensure it is seeking best execution.

As part of its fiduciary duty to clients, Colony endeavors at all times to put the interest of its clients first. Colony acknowledges its duty to seek best execution of trades for client accounts. Colony and TD Ameritrade are independent of each other and they have neither an agency nor an employment relationship with each other. Trades for client accounts held in custody at TD Ameritrade may be

executed through a different broker-dealer than trades for Colony's other clients. Thus, trades for accounts custodied at TD Ameritrade may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

#### *Fidelity Wealth Advisor Solutions Program (WAS)*

Colony participates in the Fidelity Wealth Advisor Solutions Program (the "WAS Program"), through which Colony receives referrals from Strategic Advisers, Inc. ("SAI"), a registered investment adviser and subsidiary of FMR LLC ("FMR"), the parent company of Fidelity. Colony is independent and not affiliated with SAI or FMR. SAI does not supervise or control Colony, and SAI has no responsibility or oversight for Colony's provision of investment management or other advisory services.

Under the WAS Program, SAI acts as a solicitor for Colony, and Colony pays referral fees to SAI for each referral received based on Colony's assets under management attributable to each client referred by SAI or members of each client's household. The WAS Program is designed to help investors find an independent investment advisory firm, and any referral from SAI to Colony does not constitute a recommendation or endorsement by SAI of Colony's particular investment management services or strategies. More specifically, Colony pays the following amounts to SAI for referrals:

For a period of seven (7) years from the date that the client funds his/her account(s), Colony will pay SAI an annual fee of 0.20% of the assets in the client's account(s); such amount to be billed and collected in arrears on a quarterly basis based on the average daily balance of assets held in the account(s) during the relevant quarter. The referral fee is paid by Colony and not the client.

To receive referrals from the WAS Program, Colony must meet certain minimum participation criteria, but Colony may have been selected for participation in the WAS Program as a result of its other business relationships with SAI's affiliate, Fidelity. As a result of its participation in the WAS Program, Colony may have a potential conflict of interest with respect to its decision to use Fidelity for execution, custody, and clearing for certain client accounts. Colony also may have a potential incentive to suggest the use of Fidelity to its advisory clients, whether or not those clients were referred to Colony as part of the WAS Program. Under its agreement with SAI, Colony has agreed that it will not charge referred clients more than the standard range of advisory fees disclosed in its Form ADV Part 2A. That is, it will not charge clients for the solicitation fees it pays to SAI as part of the WAS Program. Pursuant to these arrangements, for referred clients under the WAS Program, Colony has agreed not to solicit clients to transfer their brokerage accounts from Fidelity or establish brokerage accounts at other custodians other than when Colony's fiduciary duties would so require. Colony, therefore, may have an incentive to suggest that referred clients and their household members maintain custody of their accounts with Fidelity.

As part of its fiduciary duty to clients, Colony endeavors at all times to put the interest of its clients first. Colony acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Fidelity may be executed through a different broker-dealer than trades for Colony's other clients. Thus, trades for accounts custodied at Fidelity may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

## *Keiter*

Colony has referral agreement in place with Keiter, a Virginia-based public accounting firm, whereby eligible individuals of Keiter may make client referrals to Colony for investment management services. Colony is independent and not affiliated with Keiter.

Under the agreement, Keiter acts as a solicitor for Colony, and Colony pays referral fees to Keiter for each successfully-referred client based on the net investment management revenue attributable to such client. Potential investors are provided a copy of Colony's ADV 2A. Before becoming a client of Colony, a Keiter-referred potential investor must acknowledge this referral arrangement in writing. The acknowledgment discloses the specific terms of the arrangement. The client is not charged the cost of the solicitation of his/her account(s), *i.e.* Colony does not charge the referred client investment management fees that are higher than its standard rates. This arrangement meets the requirements of Rule 206(4)-3 of the Investment Advisers Act.

## *Other – Referral Arrangements with Individuals*

Colony also has referral arrangements in place with certain unaffiliated individuals that act as solicitors and may from time-to-time refer potential investors to Colony for investment management services. Each arrangement must be in compliance with Rule 206(4)-3 of the Investment Advisers Act. For each successful referral, Colony will pay to the solicitor a fee which represents a percentage of the investment management revenue that Colony charges and collects from the client. The length of each arrangement may vary. In all cases, potential investor are provided a copy of Colony's ADV 2A as well as the terms of the specific referral arrangement. The client is not charged the cost of the solicitation of his/her account(s), *i.e.* Colony does not charge a referred client investment management fees that are higher than its standard rates.

## **C. Other Compensation**

None.

## **ITEM 15: CUSTODY**

Colony's investment management clients' assets are held at unaffiliated qualified custodians. Although Colony does not hold these assets, it is deemed to have custody for purposes of amended Rule 206(4)-2 of the Advisors Act due to: (A) in managing its clients' accounts, the ability deduct management fees from clients' accounts and receive such payment from the clients' custodians; (B) the fact that, in some instances, a client-donor of Colony has named a Colony partner to serve as a fiduciary (trustee) to a trust created by the donor and Colony manages such trust account; (C) the fact that some of Colony's clients have created through their Custodian (with Colony's facilitation) standing third-party money movement instructions giving Colony the ability to direct the custodian to send the account owner's (client's) money to such third party; (D) the fact that, because some of Colony's clients have given their financial counselors logon credentials to certain of their financial institutions' websites, Colony may be in a position to direct such clients' funds to a third party; (E) the fact that on occasion a client will instruct Colony to deposit a check into the client's brokerage account after authorizing Colony to perfect the check; and (F) the fact that Colony Funds, LLC, serves as the general partner to Colony Multi-Strategy Fund, L.P.

As mentioned in Item 13(C) above, Colony provides all clients with quarterly investment reports. These reports are in addition to statements provided by the clients' custodians on at least a quarterly basis. Colony urges all investment management clients to compare the investment reports received by Colony with the account statements received by their custodians. For accounts managed by SAMs, clients receive quarterly investment reports from such SAMs. In these cases too, Colony urges clients to compare such reports to the accounts statements received from their custodians.

## **ITEM 16: INVESTMENT DISCRETION**

For clients that have hired Colony for investment management services, Colony generally has discretionary authority to manage their investments, such authority having been granted by an investment advisory agreement and one or more Investment Policy Statements ("IPSs") executed by Colony and the client.

With respect to Colony's exercising investment discretion over an account, this authority is granted through a limited power of attorney granted by the client to Colony through a client-executed custodial application and/or related custodial form. A client retains the right and ability to remove any and all of Colony's discretionary authorities over his/her account.

For some clients, Colony may provide ongoing supervisory and investment advice with respect to non-discretionary accounts and/or assets as agreed upon by Colony and the client. Non-discretionary accounts and assets generally include accounts managed by SAMs; clients' investments in unaffiliated hedge funds, limited partnerships, or other private offerings; and outside assets which often include qualified employer-sponsored plans. Non-discretionary accounts and assets also may include accounts belonging to certain institutional clients where Colony has responsibility to make, monitor, and oversee its investment recommendations.

As explained above in Item 4(C), a client may impose reasonable restrictions or limitations on the management of his/her account. Any such restrictions or limitations generally are reflected in an IPS executed by Colony and the client and/or other written instructions provided to Colony.

## **ITEM 17: VOTING CLIENT SECURITIES**

It is Colony's longstanding policy that each client is responsible for voting all of the proxies related to the securities held in his/her account. For the advisory clients of Colony who were clients of Prosper prior to October 1, 2013, it was Prosper's policy to vote client securities on behalf of its clients. For the advisory clients of Colony who were clients of Long Wharf prior to July 1, 2014, it was Long Wharf's policy to vote client securities on behalf of such clients. Therefore, in light of these two pre-existing arrangements, Colony will in fact vote client securities on behalf of such clients. This "grandfathering" policy applies only to the aforementioned groups of clients.

When Colony does in fact accept such responsibility, it will only cast proxy votes in a manner consistent with the best interest of its clients. Absent special circumstances, which are fully described in Colony's Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established

and described in Colony's Proxy Voting Policies and Procedures, as they may be amended from time-to-time. A client may contact Colony to request information about how Colony voted proxies for his/her securities or to get a copy of Colony's Proxy Voting Policies and Procedures. A brief summary of Colony's Proxy Voting Policies and Procedures is as follows:

- Colony's CIO and members of its Investment Services department meet periodically to discuss the monitoring of corporate actions, make voting decisions in the best interest of clients, and ensure that proxies are submitted in a timely manner.
- Investment Services generally will vote proxies according to Colony's then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including composition of the board of directors, approval of independent auditors, management and director compensation, anti-takeover mechanisms and related issues, changes to capital structure, corporate and social policy issues, and issues involving mutual funds.
- Although the Proxy Voting Guidelines are followed as a general policy, certain issues are considered on a case-by-case basis based on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, Colony is committed to spending sufficient time and resources to monitor these changes.
- Clients cannot direct Colony's vote on a particular solicitation but can revoke Colony's authority to vote proxies.

In situations where there may be a conflict of interest in the voting of proxies due to business or personal relationships that Colony maintains with persons having an interest in the outcome of certain votes, Colony takes appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

For the legacy Long Wharf clients, Colony utilizes the electronic voting services of Broadridge Financial Solutions, Inc., a firm that Long Wharf had an arrangement with prior to its principals and clients joining Colony. Broadridge's service, ProxyEdge, is designed to help Colony manage, track, reconcile and report proxy voting through electronic delivery of ballots, online voting, and integrated reporting and recordkeeping.

## **ITEM 18:**

### **FINANCIAL INFORMATION**

#### **A. Balance Sheet**

Colony does not require prepayment of more than \$1,200 in fees per client, six months or more in advance, and therefore does not need to include a balance sheet with this Brochure.

#### **B. Financial Conditions Reasonably Likely to Impair Ability to Meet Contractual Commitments to Clients**

Neither Colony nor its management has any financial conditions that are reasonably likely to impair its ability to meet contractual commitments to clients.

### **C. Bankruptcy Petitions in Previous Ten Years**

Colony has not been the subject of a bankruptcy petition.