

**Firm Brochure  
Part 2A of Form ADV**



**Biltmore Family Office, LLC**

**December 16, 2015**

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This brochure provides information about the qualifications and business practices of Biltmore Family Office, LLC. If you have any questions about the contents of this brochure, please contact us at (704) 248-5230 or [info@biltmorefamilyoffice.com](mailto:info@biltmorefamilyoffice.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state authority.

Biltmore Family Office, LLC is an investment advisory firm registered with the appropriate regulatory authority. Registration does not imply a certain level of skill or training. Additional information about Biltmore Family Office, LLC also is available on the SEC's website at [www.AdviserInfo.sec.gov](http://www.AdviserInfo.sec.gov).

## **Item 2 - Material Changes**

This Brochure is prepared in the revised format required beginning in 2011. Registered Investment Advisors are required to use this format to inform clients of the nature of advisory services provided, types of clients served, fees charged, potential conflicts of interest and other information. The Brochure requirements include the annual provision of a Summary of Material Changes (the "Summary") reflecting any material changes to our policies, practices, or conflicts of interest made since our last required "annual update" filing. In the event of any material changes, such Summary is provided to all clients within 120 days of our fiscal year-end. Our last annual update was filed on March 30, 2015 and the complete Brochure is available to clients at any time upon request.

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## Item 4 - Advisory Business

### A. Description of Advisory Services

Biltmore Family Office, LLC ("BFO") is a collaborative family office formed in 2008 and registered as an Investment Adviser in 2013. BFO is committed to serving high-net worth clients, families and their related entities. We manage client assets primarily through internal selection and management, allocations to third-party managers, and various investment funds.

BFO was initially formed as a North Carolina limited liability company in 2008 and began serving outside clients in 2013. The firm is principally owned by its operating partners: Chris Cecil, Mark Roberts and Wayne Gibson. Please see Brochure Supplements, Exhibit A, for information regarding other BFO partners and individuals who formulate investment advice and have direct contact with clients, or have discretionary authority over client accounts.

As of December 31, 2014 BFO advises or consults on a total of \$1,535,886,500. Of this total, BFO manages \$489,337,134 on a discretionary basis, and \$1,046,549,366 on a non-discretionary basis.

### B. Advisory Services Offered

BFO provides the following advisory services to our clients and their related entities:

- a. Investment Policy Statement. BFO assists in the creation and development of customized investment policy statements for the accounts managed by BFO. Investment Policy Statements are prepared in accordance with each client's investment objectives, taking into consideration risk tolerance, time horizon, tax issues, liquidity and cash flow needs, restrictions/constraints, and other relevant guidelines. Investment Policy Statements are created and updated upon a client's request.
- b. Asset Allocation. BFO works with its clients to create and establish their asset allocation and make changes to this recommendation as deemed appropriate. BFO's specialization is not in any one given asset class, but rather in the ongoing process of: assessing our clients' objectives through the IPS process, developing an appropriate asset allocation to help the client achieve his objectives, and altering the asset allocation when risks/opportunities are identified. To this end, BFO's client portfolios are diversified across a variety of asset classes, which may include, without limitation, equity securities, fixed income securities, limited partnerships, managed accounts, mutual funds, exchange traded funds, hedge funds, commodity futures, options, private equity, venture capital investments and other alternative investments consistent with a client's risk tolerance and overall objectives.
- c. Selection of Sub-Advisors. BFO may identify, select and monitor one or more sub-advisors to manage a portion of its client portfolios. A rigorous due diligence and evaluation process is used to evaluate sub-advisors and funds, employing both quantitative and qualitative techniques to identify the sub-advisors BFO feels are best qualified to meet clients' objectives. In most instances, BFO retains the authority to add a new sub-advisor or to terminate a sub-advisor, while, in other instances, the client will ultimately select the sub-advisors recommended by BFO. Sub-advisors will generally have discretion to determine the type and amount of securities to be purchased or sold for the client for that portion of the client's assets managed by the sub-advisors. Sub-advisors may also serve as advisors or sub-advisors to private funds and may recommend that BFO clients invest in such funds. To the extent clients are invested directly or indirectly in unaffiliated funds of selected sub-advisors, the sub-advisor of such funds will have their own investment practices, and those independent investment practices will be described in each manager's disclosure documents and/or such funds' offering documents. Some sub-advisors may be affiliated with BFO. The client understands that BFO makes no representation or assumes investment due diligence

responsibility for any allocation or performance of any sub-advisor chosen exclusively by the client.

- d. Security selection and portfolio construction. As part of our asset allocation process, BFO assesses where it is most appropriate to use active or passive investment strategies. We routinely review asset classes to determine the post-fee return attributable to either an active or passive strategy with the goal of achieving the highest risk-adjusted, post-fee return for our clients. Where appropriate, our portfolio construction may include our direct management of exchange-traded funds, index funds, mutual funds, or individual corporate securities. Our direct management of any individual securities managed on behalf of any client is subject to the terms of the Investment Management Agreement signed by the client.
- e. Comprehensive portfolio reporting and performance evaluation. BFO provides each client a periodic consolidated statement of those investments managed by our firm, by any sub-advisors, and any other assets or liabilities provided to us where the client has instructed us to report. Our reports to clients typically include asset allocation summaries as well as investment performance calculated on either a time weighted, internal rate of return, or multiple of capital basis. BFO relies on and receives reporting and pricing data from custodian brokers or banks, from various sub-advisors and/or their administrators, and, occasionally, directly from clients. Although we believe this information to be accurate and complete, we cannot guarantee its accuracy or reliability. We, therefore, cannot be held responsible for any inaccuracies contained in our reports.
- f. Ongoing monitoring and changes to sub-advisors. Where BFO has either selected or recommended any sub-advisor with respect to assets managed by us, BFO's role will be to monitor the overall financial situation, the investment approach and the performance of the sub-advisor, and to assist the client in understanding the investments held in the portfolio. When specifically requested by the client, BFO may assume ongoing monitoring responsibility for any allocation or performance of any sub-advisor or individual security chosen exclusively by the client.

### **C. Discretionary and Non-Discretionary Management.**

BFO typically manages the client's investment portfolio on a discretionary basis and will have the authority to supervise and direct the portfolio without prior consultation with the client. However, in certain pre-arranged circumstances, the portfolio may be managed under a non-discretionary arrangement where the client must be contacted prior to the execution of any trade in the account(s) under management. This may result in a delay in executing recommended trades, which could adversely affect the performance of the portfolio. This delay also normally means the affected account(s) will not be able to participate in block trades, a practice designed to enhance the execution quality, timing and/or cost for all accounts included in the block. In a non-discretionary arrangement, the client retains the responsibility for the final decision on all actions taken (or not taken) with respect to the portfolio.

### **D. Customized Advisory Services and Client Imposed Restrictions**

Client portfolios are customized to suit the needs and objectives of the client as outlined in the IPS and implemented through our asset allocation, portfolio construction, and manager selection process. We prefer that our clients not impose any specific investment restrictions on the accounts under our supervision. However, at the commencement of our relationship, clients may impose certain written restrictions on BFO in the management of their investment portfolios, such as prohibiting the inclusion of certain types of investments or prohibiting the sale of certain investments held. Any restrictions imposed by a client may adversely affect the composition and performance of the client's investment portfolio. For these and other reasons, performance and composition of restricted client portfolios would not necessarily be consistent with similar clients of BFO.

## **E. Wrap Fee Programs**

BFO does not participate in any wrap fee programs.

## **F. Assets Under Management**

As of December 31, 2014 BFO advises or consults on a total of \$1,535,886,500. Of this total, BFO manages \$489,337,134 on a discretionary basis, and \$1,046,549,366 on a non-discretionary basis.

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

### **A. BFO Compensation and Fee Information**

BFO clients pay an annual fee of up to 1% of the market value of the assets under management. Individual client fee schedules are negotiated on a client-by-client basis based on the complexity of the relationship. We typically utilize a market value tiered fee schedule where the incremental fee is reduced for larger relationships, but in some instances, we may charge a retainer-based fee that is not based on asset value. In addition to asset size, we also evaluate client complexity based on the services we provide, the ownership & legal structure, the number and location of family members and the complexity of the reporting composition and frequency.

BFO does not receive, under any circumstances, any remuneration from any sub-advisor, affiliated advisor, or third party money manager, for the recommendation of any such manager or fund to BFO's clients or inclusion in client portfolios. All fees charged by sub-advisors, affiliated advisors and private funds are separately disclosed to, and agreed upon by, the client. The client should review all fees charged by funds, brokers, BFO and others to fully understand the total amount of fees paid by the client for investment and financial-related services.

### **B. Payment of Fees and Termination**

BFO fees are typically payable quarterly, in arrears, based either on the ending market value of the account(s) under management or on a retainer based fixed fee. The quarterly billing cycle normally begins the calendar month following the date of the Investment Advisory contract. Unless other arrangements are made, fees are normally debited directly from client custodial account(s). The details of a client's investment management fee are found in the Investment Management Agreement signed by the client and by BFO.

Either BFO or the client may terminate the Investment Management Agreement at any time, subject to any written notice requirements in the agreement. In the event of termination, any fees due to BFO from the client will be invoiced or deducted from the client's account prior to termination.

### **C. Other Management Fees & Expenses**

Our fee is exclusive of all custodial and transaction costs as well as fees charged by sub-advisors, including advisors or sub-advisors to private funds in which BFO clients may invest. These fees may vary and will depend on several factors including, but not limited to, the size of investment, trading strategy, and degree of risk. Sub-advisor management fees generally range from 0.10% to 5.00% of assets per annum. In addition, some sub-advisors may charge performance fees of up to 50% of the profits. Since performance fees are generally based upon increase in the net assets of the portfolio, such performance fees may be based upon unrealized appreciation as well as realized gains. Mutual funds and exchange-traded funds also charge internal management fees, which are disclosed in a fund's prospectus.

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

BFO does not have any performance-based fee arrangements. “Side by Side Management” refers to a situation in which the same firm manages accounts that are billed based on a percentage of assets under management and at the same time manages other accounts for which fees are assessed on a performance fee basis. Because BFO has no performance-based fee accounts, it has no side-by-side management.

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

BFO serves the following types of clients:

1. High net worth individuals and other individuals,
2. Trusts, estates, foundations, and other charitable organizations,
3. Limited liability companies, corporations, pensions and profit-sharing plans.

We typically work with clients whose net worth is \$25,000,000 or more and is often composed of liquid and illiquid net worth, operating businesses, real estate or other private investments. Our clients generally are, or have been, entrepreneurs, business owners, business sellers or corporate executives. However, in our role as a collaborative family office, we reserve the right to work with clients of any net worth.

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

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

BFO may use any of the following types of analysis:

- Fundamental Analysis
- Technical Analysis
- Charting Analysis
- Cyclical Analysis
- Active versus Passive Management Analysis

Sub-advisors are selected using BFO’s evaluation methods. Quantitatively, each sub-advisor’s return history is analyzed by looking at a combination of annualized returns over various periods, an evaluation of rolling correlations and volatility measures. To evaluate downside risk, rolling Sortino ratios and semi-variance characteristics are considered, as well as the sub-advisor’s return skew.

Qualitatively, BFO will interview each management team, seeking to understand organizational dynamics, determine who the key decision makers are, evaluate firm compensation and, most importantly, determine if their team has developed a replicable process. BFO believes that process and discipline lead toward more reliable investment results.

Sub-advisors are sourced via a variety of access points including database searches, manager references, industry research and our contact group. Although BFO does not accept compensation from sub-advisors, there is also no way to definitively determine if fees charged by any sub-advisors are impacted by the cumulative amount of investments from BFO’s different clients and, if so, whether the benefit accrues to any specific BFO client or to BFO itself. BFO, wherever possible, will attempt to negotiate sub-advisors fees for the benefit of BFO’s clients in all instances where applicable utilizing our size and scale. Any sub-advisor discounts achieved reduce the fees our clients pay the sub-advisor with no direct benefit to BFO.

To the extent they are utilized, mutual funds and ETFs are generally evaluated and selected based on a variety of factors, including, as applicable and without limitation, past performance, fee structure, portfolio manager, fund sponsor, overall ratings for safety and returns, and other factors.

Fixed income investments may be used as a strategic investment, as an instrument to fulfill liquidity or income needs in a portfolio, or to add a component of capital preservation. BFO may evaluate and select individual bonds or bond funds based on a number of factors including, without limitation, issuer, rating, yield and duration.

## **B. Investment Strategies**

Our investment strategy is an asset/liability matching process incorporating a client's financial assets, non-financial assets, and sources and uses of cash flow. These assets are paired with a prioritization of the client's financial and non-financial liabilities. Non-financial liabilities include priorities that a client has committed to fund over their lifetime and of the lifetimes of future generations. We describe these as:

Lifestyle – is the liability, often cash flow driven, to provide for the lifestyle expenses of the currently living generations. These may include costs of living, health & education needs, income taxes, plus a safety buffer. This is often driven by cash flow which may or may not include: business cash flows, real estate investments, investment income, pension plans or stock ownership programs.

Generational – is a client's commitment to increase the net worth, through appreciation net of inflation, taxes and expenses, for living family members including a surviving spouse, children or grandchildren.

Legacy – is a client's funding commitment to meet the needs of future generations, philanthropic obligations, a family owned business, aspirations, and future estate taxes.

As this input is captured in each client's IPS, the strategic approach is then to invest each portfolio specifically for each client. BFO will invest the portfolio in numerous investments including, but not limited to: common stocks, ETFs, mutual funds, and individual bonds. We will also invest for clients through third party sub-advisors and in alternative investments, including limited partnerships and hedge funds.

The following specific strategies may be used in varying combinations over time for a given client, depending upon the client's individual circumstances:

- Long-Term Purchases (securities held greater than one year)
- Short-Term Purchases (securities sold within one year)
- Short Sales
- Margin Transactions
- Trading (securities sold within thirty (30) days)
- Options Trading/Writing, including covered options, uncovered options or spreading strategies, and others



### **C. Investment Risk of Loss**

While BFO seeks to diversify clients' investment portfolios across various asset classes consistent with their Investment Policy Statements in an effort to reduce risk of loss, all investment portfolios are subject to risks. Accordingly, there can be no assurance that client investment portfolios will be able to meet their investment objectives and goals, or that investments will not lose money or suffer a loss.

Below is a description of several of the principal risks that client investment portfolios face:

*Management Risks.* While BFO manages client investment portfolios, or recommends one or more managers based on BFO's experience, research and proprietary methods, the value of client investment portfolios will change daily based on the performance of the underlying securities in which they are invested. Accordingly, client investment portfolios are subject to the risk that BFO or a manager allocates assets to asset classes that are adversely affected by unanticipated market movements, and the risk that BFO's specific investment choices could underperform their relevant indexes.

*Risks of Investments in Mutual Funds, ETFs and Other Investment Pools.* As described above, BFO or a manager may invest client portfolios in mutual funds, ETFs and other investment pools ("pooled investment funds"). Pooled investment funds' success will be related to the skills of their particular managers and their performance in managing their funds. Pooled investment funds are also subject to risks due to regulatory restrictions applicable to registered investment companies under the Investment Company Act of 1940.

*Other Funds.* BFO may invest in other, unaffiliated funds (including, but not limited to, U.S. or offshore unit investment trusts, open-end and closed-end mutual funds and hedge funds, private equity funds, venture capital funds, advisory accounts, real estate investment trusts, ETFs, or other private alternative or other investment funds, regardless of whether any of the foregoing investment vehicles are affiliated with us) (collectively, "Other Funds"). These Other Funds will charge their own management and other fees, so that if we invest in them, the client will bear an additional level of fees and expenses. BFO does not receive fees from these funds. These Other Funds may have unique risks of loss as described in their offering documents.

*Equity Market Risks.* BFO and any manager(s) will generally invest portions of client assets directly into equity investments, primarily stocks, or into pooled investment funds that invest in the stock market. These risks include, without limitation, the risks that stock values will decline due to daily fluctuations in the markets, and that stock values will decline over longer periods (e.g., bear markets) due to general market declines in the stock prices for all companies, regardless of any individual security's prospects.

*Fixed Income Risks.* BFO and any manager(s) may invest portions of client assets directly into fixed income instruments, such as bonds and notes, or may invest in pooled investment funds that invest in bonds and notes. While investing in fixed income instruments, risks include, without limitation, interest rate risks (risks that changes in interest rates will devalue the investments), credit risks (risks of default by borrowers), or maturity risk (risks that bonds or notes will change value from the time of issuance to maturity).

*Foreign Securities Risks.* BFO and any manager(s) may invest portions of client assets in foreign securities (*debt, equity, currencies, derivatives, etc.*). While foreign investments are important to the diversification of client investment portfolios, they carry risks that may be different from U.S. investments. For example, foreign investments may not be subject to uniform audit, financial

reporting or disclosure standards, practices or requirements comparable to those found in the U.S. Foreign investments are also subject to foreign withholding taxes and the risk of adverse changes in investment or exchange control regulations. Foreign investments may involve currency risk, which is the risk that the value of the foreign security will decrease due to changes in the relative value of the U.S. dollar and the security's underlying foreign currency.

*Short Sale Risks.* Short sales are speculative transactions and involve special risks. In order to initiate a short position, a security must be borrowed. Strategies that execute short sales may incur a loss if the price of the security sold short increases in value between the date of the short sale and the date when BFO purchases the security to replace the borrowed security. Losses are potentially unlimited in a short sale transaction.

*Options and Futures (Derivatives Risk):* Even a small investment in options may give rise to leverage risk, and can have a significant impact on the account's performance. Derivatives are subject to credit risk and liquidity risk.

*Market Liquidity Risks.* The value of securities held in client accounts and that are traded on exchanges and the risks associated with holding these positions vary in response to events that affect asset markets in general. Market disruptions such as those that occurred in 1987, September 2001, and more recently the Flash Crash in May 2010 could lead to violent price swings in securities held within client portfolios and could result in substantial losses.

*Potential Concentration Risks.* Client portfolios may have highly concentrated positions in issuers engaged in one or a few industries, sectors, markets or countries. This increases the risk of loss relative to the market as a whole.

## **Item 9 - Disciplinary Information**

BFO has no disciplinary events to report.

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

In 2013 when BFO converted from a single family office to a collaborative family office, the firm registered as an investment advisor. At that time, we added two partners as clients, who also were previously registered investment advisers. As a result, BFO is affiliated with Ironsides Asset Advisors, LLC ("Ironsides") (CRD# 161683) and Gorelick Brothers Capital, LLC ("GBC") (CRD# 160517). Understanding that these client partners also operate as registered investment advisers, BFO has taken steps to mitigate any potential conflict by adopting a Code of Ethics, as well as ensuring that all clients who meet the BFO minimums and utilize BFO services are served directly by BFO, while some legacy private client relationships remain within Ironsides. Additionally, any accounts managed by BFO or Ironsides are overseen by the same investment strategies and the same Chief Investment Officer, Mark Roberts, and are generally managed alongside other client accounts, including participating in block trades.

GBC is a minority partner and family client of BFO. GBC provides investment management services solely to private funds (the "Funds"). Partners of GBC serve on BFO's Investment Committee and may provide hedge fund research and due diligence as part of BFO's investment process. When appropriate in light of client circumstances, BFO may recommend that clients invest in the Funds. Because Gorelick Brothers is an affiliate of BFO and may receive compensation, including performance-based compensation, from any BFO client's investment in the Funds, BFO has a

conflict of interest when recommending the Funds to its clients. To mitigate this conflict of interest, BFO will only recommend the Funds to its clients on a fully disclosed basis and clients will pay the same fees to BFO and the Fund(s) than they would if they had purchased the Fund(s) directly.

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

### Code of Ethics and Personal Trading

BFO has adopted a Code of Ethics ("the Code"), the full text of which is available to clients upon request. The Code has several goals. First, the Code is designed to assist BFO in complying with applicable laws and regulations governing its investment advisory business. Under the Investment Advisers Act of 1940 (the "Advisers Act"), BFO owes fiduciary duties to its clients. Pursuant to these fiduciary duties, the Code requires persons associated with BFO (managers, officers and employees) to act with honesty, good faith and fair dealing in working with clients. In addition, the Code prohibits such associated persons from trading or otherwise acting on insider information.

Next, the Code sets forth guidelines for professional standards for BFO's associated persons. Under the Code's Professional Standards, BFO expects its associated persons to put the interests of its clients first, ahead of personal interests. In this regard, BFO associated persons are not to take inappropriate advantage of their positions in relation to BFO clients.

Third, the Code sets forth policies and procedures to monitor and review the personal trading activities of associated persons. From time to time, BFO's associated persons may invest in the same securities recommended to clients. Under its Code, BFO has adopted procedures designed to reduce or eliminate conflicts of interest that this could potentially cause. The Code's personal trading policies include procedures for limitations on personal securities transactions of associated persons, reporting and review of such trading and pre-clearance of certain types of personal trading activities. These policies are designed to discourage and prohibit personal trading that would disadvantage clients. The Code also provides for disciplinary action as appropriate for violations.

In addition to the above, by virtue of being a CFA, Mark Roberts is obligated to follow the stringent guidelines established by the CFA Institute.

### Participation or Interest in Client Transactions

As outlined above, BFO has adopted procedures to protect client interests when its associated persons invest in the same securities as those selected for, or recommended to, clients. In the event of any identified potential trading conflicts of interest, BFO's goal is to place clients' interests first.

Consistent with the foregoing, BFO maintains policies regarding participation in initial public offerings ("IPOs") and private placements to comply with applicable laws and avoid conflicts with client transactions. If an associated person of BFO wishes to participate in an IPO or invest in a private placement, he or she must submit a pre-clearance request and obtain the approval of the Chief Compliance Officer.

## **Item 12 - Brokerage Practices**

BFO is independently owned and operated and is not affiliated with any broker-dealer or custodian.

### **A. Best Execution and Benefits of Brokerage Selection**

When given discretion to select the brokerage firm that will execute orders in client accounts, BFO seeks “best execution” for client trades, which is a combination of a number of factors, including, without limitation, quality of execution, services provided and commission rates. Therefore, BFO may use or recommend the use of brokers who do not charge the lowest available commission in the recognition of research and securities transaction services, or quality of execution. Research services received with transactions may include proprietary or third party research (or any combination), and may be used in servicing any or all of BFO’s clients. Therefore, research services received may not be used for the account for which the particular transaction was effected.

BFO may recommend that clients establish brokerage accounts with various FINRA registered broker-dealers and members of the SIPC (“Custodians”) as the qualified custodians to maintain custody of clients’ assets. BFO may also effect trades for client accounts at custodians, or may, in some instances, consistent with BFO’s duty of best execution and specific agreement with each client, elect to execute trades elsewhere. Although BFO may recommend that clients establish accounts with custodians, it is ultimately the client’s decision to custody assets with any particular custodian. BFO is not affiliated with any custodian.

Custodians provide BFO with access to their institutional trading, custody, reporting and related services, which are typically not available to retail investors. Custodians also make available various support services to help BFO manage its clients’ accounts and manage and grow its business. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them. Custodians’ brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or might require a significantly higher minimum initial investment. BFO is not affiliated with any broker.

For BFO client accounts maintained in their custody, custodians generally do not charge separately for custody services but are compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through custodians or that settle into custodians’ accounts. Custodians also make available to BFO other products and services that benefit BFO but may not directly benefit its clients. Many of these products and services may be used to service all or some substantial number of BFO accounts, including accounts not maintained at custodians.

Custodians’ products and services that assist BFO in managing and administering clients’ accounts include software and other technology that (i) provide access to client account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) provide pricing and other market data; (iv) facilitate payment of BFO’s fees from its clients’ accounts; and (v) assist with back-office functions, recordkeeping and client reporting.

Custodians also offer other services intended to help BFO manage and further develop its business enterprise. These services may include: (i) technology, compliance, legal and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to employee benefits providers, human capital consultants and insurance providers. Custodians may make available, arrange and/or pay third-party vendors for the types of services rendered to

BFO. Custodians 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 BFO. Custodians may also provide other benefits such as educational events or occasional business entertainment of BFO personnel. In evaluating whether to recommend that clients custody their assets at specific custodians, BFO 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 on the nature, cost or quality of custody and brokerage services provided by custodians, which may create a potential conflict of interest.

## **B. Directed Brokerage**

Clients may direct BFO to use a particular broker for custodial or transaction services on behalf of the client's portfolio. In directed brokerage arrangements, the client is responsible for negotiating the commission rates and other fees to be paid to the broker. Accordingly, a client who directs brokerage should consider whether such designation may result in certain costs or disadvantages to the client, either because the client may pay higher commissions or obtain less favorable execution, or the designation limits the investment options available to the client. By directing brokerage arrangements, the client acknowledges that these economies of scale and levels of efficiency are generally compromised when alternative brokers are used. While every effort is made to treat clients fairly over time, the fact that a client chooses to use the brokerage and/or custodial services of these alternative service providers may, in fact, result in a certain degree of delay in executing trades for their account(s) and otherwise adversely affect management of their account(s).

By directing BFO to use a specific broker or dealer, clients who are subject to ERISA confirm and agree with BFO that they have the authority to make the direction, that there are no provisions in any client or plan document which are inconsistent with the direction, that the brokerage and other goods and services provided by the broker or dealer through the brokerage transactions are provided solely to and for the benefit of the client's plan, plan participants and their beneficiaries, that the amount paid for the brokerage and other services have been determined by the client and the plan to be reasonable, that any expenses paid by the broker on behalf of the plan are expenses that the plan would otherwise be obligated to pay, and that the specific broker or dealer is not a party in interest of the client or the plan as defined under applicable ERISA regulations.

## **C. Aggregated Trade Policy**

BFO will enter trades as a block, where possible, and when advantageous to clients whose accounts have a need to buy or sell shares of the same security. This method permits the trading of aggregate blocks of securities composed of assets from multiple client accounts. It allows BFO to execute trades in a timely, equitable manner, and may reduce overall costs to clients. Block trades may be rotated between broker/dealers to effect best execution among the participating accounts.

BFO will only aggregate transactions when it believes that aggregation is consistent with its duty to seek best execution (which includes the duty to seek best price) for its clients, and is consistent with the terms of BFO's Investment Advisory Agreement with each client for which trades are being aggregated. No advisory client will be favored over any other client; each client who participates in an aggregated order will participate at the average share price for all BFO's transactions in a given security on a given business day. Transaction costs for participating accounts will be assessed at the custodian's commission rate applicable to each account; therefore, transaction costs may vary among accounts. Accounts may be excluded from a block due to tax considerations, client direction, existing allocation issues, or other factors making the account's participation ineligible or impractical.

BFO will prepare, before entering an aggregated order, a written statement ("Allocation Statement") specifying the participating client accounts and how it intends to allocate the order among those

clients. If the aggregated order is filled in its entirety, it will be allocated among clients in accordance with the Allocation Statement. If the order is partially filled, it will generally be allocated pro-rata, based on the Allocation Statement, or randomly in certain circumstances. Notwithstanding the foregoing, the order may be allocated on a basis different from that specified in the Allocation Statement if all client accounts receive fair and equitable treatment, and the reason for different allocation is explained in writing and is approved by an appropriate individual/officer of BFO. BFO's books and records will separately reflect, for each client account included in a block trade, the securities held by and bought and sold for that account. Funds and securities of clients whose orders are aggregated will be deposited with one or more banks or broker-dealers, and neither the clients' cash nor their securities will be held collectively any longer than is necessary to settle the transaction on a delivery versus payment basis; cash or securities held collectively for clients will be delivered out to the custodian bank or broker-dealer as soon as practicable following the settlement, and BFO will receive no additional compensation or remuneration of any kind as a result of the proposed aggregation.

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

Each client's Investment Policy Statement is reviewed at least annually, but may be reviewed more often, upon receipt of information material to the management of the portfolio, or at any time such review is deemed necessary or advisable by BFO. These factors may include, but are not limited to, change in general client circumstances (marriage, divorce, retirement) or economic, political or market conditions. Christopher Cecil, Chief Executive Officer, or Mark Roberts, Chief Investment Officer, reviews all accounts.

Account custodians are responsible for providing monthly or quarterly account statements which reflect the positions (and current pricing) in each account as well as transactions in each account, including fees paid from an account. Account custodians also provide prompt confirmation of all trading activity, and year-end tax statements, such as 1099 forms. BFO may produce quarterly written statements that provide pertinent information with regard to investment account(s), including but not limited to account values, net contributions and withdrawals, realized/unrealized gain/loss, etc. This statement is not intended to replace the statement provided by the account custodian(s), which should be considered the official record for all pertinent account information and for tax purposes. BFO's reports are provided in a different format from that of the account custodian(s) and may vary in content and scope. The account balances reflected on these reports should be compared to the balances shown on the brokerage statements to ensure accuracy. At times there may be small differences due to the timing of dividend reporting, pending trades or other similar issues. Additional reports are available at the request of the client.

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

As noted above, BFO may receive an economic benefit from custodians in the form of support products and services it makes available to BFO and other independent investment advisors that have their clients maintain accounts at custodians. These products and services, how they benefit BFO, and the related conflicts of interest are described in **Item 12 - Brokerage Practices**. The availability of custodians' products and services to BFO is based solely on BFO's participation in the programs and not in the provision of any particular investment advice.

From time to time, BFO may enter into arrangements with third parties ("Solicitors") to identify and refer potential clients to BFO. Consistent with legal requirements under the Advisers Act, BFO enters into a written agreement with a Solicitor under which, among other things, the Solicitor is required to

disclose its compensation arrangements to prospective clients before such clients enter into an agreement with BFO.

### **Item 15 - Custody**

It is the client custodian's responsibility to provide clients with confirmations of trading activity, tax forms and, at least quarterly, account statements. Clients are advised to review this information carefully, and to notify BFO of any questions or concerns. Clients are also asked to promptly notify BFO if the custodian fails to provide statements on each account held. From time to time and in accordance with BFO's agreement with clients, BFO will provide additional reports. The account balances reflected on these reports should be compared to the balances shown on the brokerage statements to ensure accuracy.

### **Item 16 - Investment Discretion**

As described in **Item 4 - Advisory Business**, BFO will accept clients on either a discretionary or non-discretionary basis. For *discretionary accounts*, a Limited Power of Attorney ("LPOA") is executed by the client, giving BFO the authority to carry out various activities in the account, generally including the following: trade execution, hiring and firing of third party sub-advisors, the ability to request checks on behalf of the client, and, the withdrawal of advisory fees directly from the account. BFO then directs investment of the client's portfolio using its discretionary authority. The client may limit the terms of the LPOA to the extent consistent with the client's investment advisory agreement with BFO and the requirements of the client's custodian.

For *non-discretionary accounts*, the client also generally executes an LPOA, which allows BFO to carry out trade recommendations and approved actions in the portfolio. However, in accordance with the investment advisory agreement between BFO and the client, BFO does not implement trading recommendations or other actions in the account unless and until the client has approved the recommendation or action. As with discretionary accounts, clients may limit the terms of the LPOA, subject to BFO's agreement with the client and the requirements of the client's custodian.

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

With respect to securities selected on behalf of the client in a managed account or recommended to a client, BFO may vote proxies where required under client agreements. Where BFO has the authority to vote proxies, BFO will seek to vote proxies in the best interest of its client holding the applicable securities. In voting proxies, BFO considers factors that BFO believes relate to the client's investment and factors, if any, that are set forth in written instructions from the client.

In general, BFO believes that voting proxies in accordance with the following guidelines, with respect to such routine items, is in the best interests of its clients. Accordingly, BFO generally votes **for**:

- The election of directors (where no corporate governance issues are implicated);
- Proposals that strengthen the shared interests of shareholders and management;
- The selection of independent auditors based on management or director recommendation, unless a conflict of interest is perceived;
- Proposals that BFO believes may lead to an increase in shareholder value;
- Management recommendations adding or amending indemnification provisions in charter or by-laws; and
- Proposals that maintain or increase the rights of shareholders.

BFO will generally vote **against** any proposals that BFO believes will have a negative impact on shareholder value or rights. If BFO perceives a conflict of interest, BFO's policy is to notify affected clients so that they may choose the course of action they deem most appropriate.

A copy of BFO's complete policy, as well as records of proxies voted, is available to clients upon request. As required under the Advisers Act, BFO maintains such records for a period of five (5) years.

#### **Item 18 - Financial Information**

BFO does not have any financial commitment that would impair its contractual commitments to its clients and therefore has no disclosure with respect to this item.