

HERNDON CAPITAL®

Management

191 Peachtree Street, NE
Suite 2500
Atlanta, GA 30303

(404) 232-8801

www.herndoncap.com

March 15, 2016

Item 1 – Cover Page

This Brochure provides information about the qualifications and business practices of Herndon Capital Management, LLC (hereinafter “HCM”). If you have any questions about the contents of this Brochure, please contact Annette Marshall, Chief Compliance Officer, at (404) 232-8806 or hcmcompliance@herndoncap.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

HCM is an SEC-registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information that you can use in determining whether to hire or retain an Adviser.

Additional information about HCM is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

This Brochure dated March 15, 2016 is a document prepared according to the SEC's requirements and rules.

This section entitled "Item 2 – Material Changes" will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes as of the date of the last annual update of our brochure.

Material changes to the Brochure are as follows:

- 1) Two additional strategies have been added to the HCM Product line-up, Mid Capitalization U.S. Core Equity and Small Mid (SMID) Capitalization U.S. Growth Equity.
- 2) The addition of two new Associate Portfolio Managers and the Associate Director of Research to the HCM Investment Committee as of 1/1/16.

HCM ensures that clients receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year.

HCM will further provide clients with a new Brochure as necessary based on changes or new information, at any time, without charge.

Our Brochure may be requested by contacting Annette Marshall, Chief Compliance Officer at (404) 232-8806 or hcmcompliance@herndoncap.com. Additional information about HCM is also available via the SEC's web site www.adviserinfo.sec.gov. The SEC's web site also provides information about any persons affiliated with HCM who are registered as investment adviser representatives.

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	4
Item 5 – Fees and Compensation	5
Item 6 – Performance-Based Fees and Side-By-Side Management.....	8
Item 7 – Types of Clients	8
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss	8
Item 9 – Disciplinary Information	12
Item 10 – Other Financial Industry Activities and Affiliations.....	12
Item 11 – Code of Ethics.....	12
Item 12 – Brokerage Practices.....	14
Item 13 – Review of Accounts	17
Item 14 – Client Referrals and Other Compensation	17
Item 15 – Custody	18
Item 16 – Investment Discretion	18
Item 17 – Voting Client Securities	18
Item 18 – Financial Information.....	20

Item 4 – Advisory Business

Herndon Capital Management, LLC (“HCM”) is an institutional investment management firm founded and registered with the SEC in 2001, HCM is organized under the laws of the State of Delaware. HCM’s principal place of business is located in Atlanta, Georgia where all books and records are maintained. Randell Cain, Principal and Portfolio Manager, works remotely from North Carolina.

Herndon Capital Management is majority-owned by Atlanta Life Financial Group, Inc. The principal owner of Atlanta Life Financial Group is The Herndon Foundation. Kenneth Holley, CFA, Randell A. Cain, Jr., CFA, and Drake Craig, CFA collectively own the remainder of the shares of HCM and are responsible for the day-to day operations of the firm.

While accounts are primarily invested according to the investment strategy selected by the client, clients may impose reasonable restrictions on the management of their portfolio subject to HCM’s acceptance of those restrictions. Client specific restrictions may adversely affect performance including generating additional trading costs.

HCM provides discretionary Investment Supervisory Services, defined as giving continuous advice to a client or making investments for a client based on the individual needs of the client. HCM manages equity portfolios according to the following strategies:

- Large Capitalization U.S. Growth Equity
- Large Capitalization U.S. Value Equity
- Large Capitalization U.S. Core Equity
- Large Capitalization Core International Equity
- Large Capitalization U.S. Value Concentrated Equity
- Large Capitalization U.S. Value Diversified Equity
- Mid Capitalization U.S. Value Equity
- Mid Capitalization U.S. Growth Equity
- Mid Capitalization U.S. Core Equity
- Small Mid Capitalization U.S. Growth Equity

There is a minimum portfolio size of \$5,000,000 required for these services; however, this minimum may be negotiable under certain circumstances.

HCM also provides Model Portfolios which replicate its actual portfolio holdings for the Large Cap U.S. Value, Large Cap U.S. Growth, Large Cap U.S. Core and Mid Cap U.S. Value strategies that are utilized by intermediaries who market and implement these models on a non-discretionary basis. HCM has no supervisory or oversight responsibilities with regard

to the assets invested in the Model Portfolio. HCM does not control who has access to the models and also does not influence if and/or when changes in the models are reflected in the intermediaries' clients' portfolios. For providing these model portfolios and, if requested, associated commentaries, HCM is paid a fee for the total assets associated with the strategy. HCM does not have contact with the intermediaries' clients and is unaware of who the intermediaries' clients may be. Information about the amount of assets invested in HCM's strategy through these intermediaries is obtained directly from the intermediaries. HCM has no means to verify the accuracy of this information.

HCM participates as a portfolio manager in one or more wrap-fee programs. There is no material difference between the management of wrap-fee accounts versus other HCM clients. In a wrap account, clients pay a single fee to a wrap sponsor which covers some or all of the following services: portfolio management; custody; administration; commissions for trades executed by the sponsor (or an affiliate of the sponsor); and selection of portfolio managers. The fee paid by the client is not based directly upon transactions in client's account. Wrap fee clients either have a direct contractual relationship with HCM or receive HCM's advisory services through a contract entered into with the sponsor. Advisory fees may be paid to HCM by the wrap sponsor or directly by the client. Wrap sponsors generally instruct the advisor, subject to its duty to seek best execution, to execute transactions through their broker-dealer.

HCM relies on wrap sponsors and their financial advisors to fulfill certain responsibilities with regard to wrap program clients. Generally, wrap sponsors assume tasks such as: (1) client identification; (2) delivery of HCM's disclosure documents; (3) delivery of HCM's privacy notice; and, (4) ensuring HCM's products and services are suitable to the client's investment objectives.

As of December 31, 2015, HCM's assets under management were as follows:

Discretionary	\$5,149,614,873.93
Assets Under Advisement*	\$1,399,156,308.19
Total Discretionary and Assets Under Advisement	\$6,548,771,182.12

**Assets Under Advisement includes assets in programs where HCM provides Model Portfolios but has no discretion to effect trades and no supervisory responsibility over the assets in the program. This number has been derived from the most recent information provided by each of the participating Model Portfolio programs and may not be current as of the date stated above.*

Item 5 – Fees and Compensation

Clients pay HCM a fee based on the value of assets in their account. Fees are charged quarterly in arrears based on the market value of the account at the end of the quarter. Certain Model and WRAP accounts pre-pay fees While HCM intends to charge fees in

accordance with the standard fee schedule in place at the time of executing the investment management agreement, fees are subject to negotiation and may vary from the standard schedules to reflect circumstances that apply to a specific client account, including eleemosynary accounts. The fee schedule, and any applicable terms and conditions, as it relates to a particular client is detailed in the client's investment management agreement.

The advisory fee covers only the portfolio management and advisory services provided by HCM and does not include brokerage commissions, mark-ups and mark-downs, exchange fees, dealer spreads, other costs associated with the purchase and sale of securities, custodian fees, transfer fees, wire fees, interest, taxes, or other account expenses. Refer to Item 12 for a detailed discussion of brokerage practices, including HCM's procedures for determining the reasonableness of commissions and other transaction costs.

HCM typically sends invoices to clients for payment of advisory fees. But to the extent that HCM is authorized to directly invoice the client's custodian for payment of its advisory fee, HCM is deemed to have custody of the client's funds. Clients will receive a statement, usually monthly but no less than quarterly, directly from their account custodian. HCM urges clients to review the information on the statement for accuracy and compare the information to any reports received directly from HCM. Please refer to Item 15 of this document for additional disclosures relating to Custody.

A client agreement may be canceled at any time, by either party, for any reason upon receipt of 30 days written notice, unless stated otherwise in the client agreement. Upon termination of any account, the advisory fee will be prorated for the period for which services were rendered. Any prepaid, unearned fees will be promptly refunded.

HCM's standard Large Cap Core International Equity investment advisory fee schedule:

Up to \$10 million	1.00%
\$10 million – \$25 million	0.90%
\$25 million – \$50 million	0.75%
\$50 million – \$100 million	0.65%
Above \$100 million	0.50%

HCM's standard Large Capitalization U.S. Equity investment advisory fee schedule:

Up to \$10 million	0.85%
\$10 million – \$25 million	0.75%
\$25 million – \$50 million	0.65%
\$50 million – \$100 million	0.45%
Above \$100 million	0.40%

HCM's standard Mid Capitalization U.S. Equity investment advisory fee schedule:

Up to \$10 million	0.95%
\$10 million – \$25 million	0.85%

\$25 million – \$50 million	0.75%
\$50 million – \$100 million	0.55%
Above \$100 million	0.50%

HCM's standard Small Mid Capitalization U.S. Equity investment advisory fee schedule:

Up to \$10 million	0.95%
\$10 million – \$25 million	0.85%
\$25 million – \$50 million	0.75%
\$50 million – \$100 million	0.55%
Above \$100 million	0.50%

HCM's standard Large Capitalization U.S. Concentrated Equity investment advisory fee schedule:

Up to \$10 million	0.90%
\$10 million – \$25 million	0.80%
\$25 million – \$50 million	0.70%
\$50 million – \$100 million	0.50%
Above \$100 million	0.45%

HCM's standard Large Capitalization U.S. Diversified Equity investment advisory fee schedule:

Up to \$10 million	0.85%
\$10 million – \$25 million	0.75%
\$25 million – \$50 million	0.65%
\$50 million – \$100 million	0.45%
Above \$100 million	0.40%

With respect to wrap-fee programs, the program sponsor charges the client a fee based on assets under management. The fee typically includes portfolio management, execution, custodial and other services provided by the sponsor. HCM typically receives fees ranging from 0.25% to 0.70% per year of the value of accounts participating in a wrap-fee program. Wrap-fee clients should review the sponsor's ADV Part 2A - Appendix 1 for details regarding the fees associated with any specific wrap program.

Fees for Model Portfolio recommendations are negotiable and HCM does not maintain a standard fee schedule for such services. Fees typically range from .20% to .50% of the assets in the program.

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

HCM does not market a performance based fee, however under certain circumstances we may accept a performance based fee. This fee is negotiated and may vary from account to account, but in all cases is designed to comply with SEC Rule 205-3 and various state and federal laws which may apply.

HCM may advise certain accounts with respect to which the advisory fee is based entirely or partially on performance that may present a conflict of interest for HCM in that HCM may have an incentive to allocate the investment opportunities that HCM believes might be the most profitable to such accounts. HCM has adopted policies and procedures reasonably designed to allocate investment opportunities between all accounts on a fair and equitable basis over time.

Item 7 – Types of Clients

HCM provides portfolio management to pension and profit sharing plans, state or municipal government entities, corporations, associations, foundations, endowments, high net worth individuals through wrap programs, a client's pooled investment vehicle (not including hedge funds), collective investment trusts, Undertakings for Collective Investments in Transferable Securities ("UCITS") authorized under the European Directive, and investment companies ("Mutual Funds") registered under the Investment Company Act of 1940, as amended.

A minimum account size of \$5,000,000 is required for investment advisory services provided directly by HCM. However, this minimum may be negotiable under certain circumstances. Account minimums required through wrap programs or model portfolios differ and are available from the sponsor of each respective program.

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

HCM uses traditional bottom-up fundamental analysis to identify securities for inclusion in client portfolios. HCM attempts to measure the intrinsic value of a security by looking at economic and financial factors to determine if the company is underpriced or overpriced relative to the market. HCM employs both quantitative and qualitative screens to distinguish attractive, financially sound companies with strong management teams.

Information about the specific investment strategies offered by HCM follows:

Large Capitalization US Growth Equity

HCM's Large Cap Growth strategy is designed to give investors exposure to the stocks of large cap companies that, on average, offer growth characteristics greater than that of the broader market.

HCM's growth philosophy evolves from the belief that stock price movements are greatly influenced by earnings, particularly changes in earnings and quality of earnings. For this reason, a significant portion of HCM's research effort is devoted to the study of corporate earnings. Earnings quality, earnings surprises, and changes in analysts' earnings estimates move stock prices. HCM's objective is to anticipate those changes in earnings and position the portfolio accordingly.

HCM's desire to maintain a growth approach leads to the incorporation of some macroeconomic decisions as a part of the investment process. HCM wants the portfolio to contain active sector and stock bets without varying too far from the benchmark because of a particular sector's attractiveness. This way HCM avoids the problem that occurs when a large number of stocks in a particular sector are so attractive that they crowd out other sectors, and in doing so dominate the portfolio and incorporate unwarranted risk.

Large Capitalization US Value Equity

HCM's value philosophy equates true value to companies that trade at a discount to what their underlying fundamentals merit. The goal of this strategy is to outperform the Russell 1000 Value Index over a market cycle (3-5 years) with an emphasis on quality and liquidity in a portfolio that is fully invested (5% or less cash) at all times. The securities that populate the portfolio maintain a value bias creating opportunities with upside potential of at least 30%. Overall, HCM looks to invest in opportunities that have a solid chance of winning while acknowledging the commensurate risk associated with the investment.

Large Capitalization US Core Equity

While either a growth or value strategy may dominate markets for certain periods of time, we believe portfolios constructed with complementary elements of both styles will produce more dependable results over time. The objective for this strategy is to put together a portfolio which reflects HCM's best thinking from a growth and value strategy perspective.

HCM utilizes, what it considers to be, a rigorous and disciplined multi-step investment process, which consists of ranking the entire universe of available securities on key fundamental metrics and intensive bottom up, fundamental analysis from the Value and Growth products.

The goal of the Large Cap US Core Strategy is to outperform the S&P 500 Index over a market cycle (3-5 years).

Large Capitalization Core International Equity

HCM's philosophy stems from the belief that the most consistent method for producing better risk-adjusted returns than the peer group over time involves the use of what HCM believes to be a highly disciplined, risk-managed approach. When it comes to style, while either the Growth or Value strategy may dominate for

certain periods, portfolios constructed with stocks which contain complementary elements of both of these styles will produce more dependable long-term results.

The long-term projected return for the international strategy including emerging markets is 250 basis points above the benchmark. The long-term projected return for the international strategy excluding emerging markets is 150 basis points above the benchmark.

Large Capitalization U.S Value Concentrated Equity

HCM's value philosophy equates true value to companies that trade at a discount to what their underlying fundamentals merit. The goal of this strategy is to outperform the Russell 1000 Value Index over a market cycle (3-5 years) with an emphasis on quality and liquidity in a portfolio that is fully invested (5% or less cash) at all times. The securities that populate the portfolio maintain a value bias creating opportunities with upside potential of at least 30%. Overall, HCM looks to invest in opportunities that have a solid chance of winning while acknowledging the commensurate risk associated with the investment.

Large Capitalization U.S Value Diversified Equity

HCM's value philosophy equates true value to companies that trade at a discount to what their underlying fundamentals merit. The goal of this strategy is to outperform the Russell 1000 Value Index over a market cycle (3-5 years) with an emphasis on quality and liquidity in a portfolio that is fully invested (5% or less cash) at all times. The strategy consists of two investment sleeves that are each independently sourced from two separate investment universes – the Russell Top 200 and Russell Mid Cap Indices. The mega cap sleeve represents roughly 60-80% of the portfolio with the remaining balance allocated to Mid Cap. Each sub-portfolio sleeve is managed using the same overall investment process with the primary differences being the investment universe for security selection.

Mid Capitalization US Value Equity

HCM's value philosophy equates true value to companies that trade at a discount to what their underlying fundamentals merit. The goal of the product is to outperform the Russell Mid Cap Value Index over a market cycle (3-5 years) with an emphasis on quality and liquidity in a portfolio that is fully invested (5% or less cash) at all times. The securities that populate the portfolio maintain a value bias creating opportunities with upside of at least 30%. Overall, HCM looks to invest in opportunities that have a solid chance of winning while acknowledging the commensurate risk associated with the investment.

Mid Capitalization US Growth Equity

HCM's Midcap Growth strategy is designed to give clients exposure to the stocks of midcap companies that, on average, offer growth characteristics greater than that of the broader market. The design evolves from the belief that longer term, stock price

movements are driven by the change in earnings. The goal of the strategy is to outperform the Russell Midcap Growth Index over a market cycle (3 – 5 years) with an emphasis on growth and managing risks (i.e. fundamental, sector, stock level, and price) in a portfolio that is fully invested (7% or less cash) at all times. Overall, HCM looks to invest in opportunities that have a solid chance of outperforming while accounting for the risk commensurate with the investment.

Mid Capitalization US Core Equity

While either a growth or value strategy may dominate markets for certain periods of time, we believe portfolios constructed with complementary elements of both styles will produce more dependable results over time. The objective of the strategy is to put together a portfolio which reflects HCM's best thinking from a growth and value strategy perspective.

HCM utilizes, what it considers to be, a rigorous and disciplined multi-step investment process, which consists of ranking the entire universe of available securities on key fundamental metrics and intensive bottom up, fundamental analysis from the Value and Growth products.

The goal of the Mid Cap US Core Strategy is to outperform the Russell Midcap Index over a market cycle (3–5 years).

Small Mid Capitalization US Growth Equity

HCM's Small Mid-Capitalization US Growth strategy is designed to give clients exposure to the stocks of small and mid-capitalization companies that, on average, offer growth characteristics greater than that of the broader market. The design evolves from the belief that longer term, stock price movements are driven by the change in earnings. The goal of the strategy is to outperform the Russell 2500 Growth Index over a market cycle (3 – 5 years) with an emphasis on growth and managing risks (i.e. fundamental, sector, stock level, and price) in a portfolio that is fully invested (7% or less cash) at all times. Overall, HCM looks to invest in what we believe are opportunities that have a solid chance of outperforming while accounting for the risk commensurate with the investment.

Investing in securities involves risk of loss that clients should be prepared to bear. HCM uses its best judgment and good faith efforts in providing advisory services to clients. HCM cannot warrant or guarantee any particular level of account performance, or that an account will be profitable over time. Not every investment decision or recommendation made by HCM will be profitable. Investments in securities are subject to various market, currency, inflation, economic, political and business risks. HCM attempts to minimize these risks by employing what it considers to be a rigorous stock selection process along with thorough economic, market and industry analysis.

While exposure to international markets provides diversification that cannot be achieved by investing solely in a domestic equity portfolio, foreign investments are subject to different risks than U.S. markets. Risks include:

Changes in currency exchange rates – Fluctuations in exchange rates could materially affect the value of a foreign investment.

Political, economic and social events – Stability of foreign governments and economies could adversely affect the value of an investment.

Lack of liquidity - Foreign markets may have lower trading volumes and fewer listed companies. Some countries limit foreign ownership of securities.

Less information – Foreign companies are not required to provide investors with the same type of information as U.S. public companies.

Reliance on foreign legal remedies – Legal action against a foreign company may not be available to U.S. investors.

Different market operations – Foreign markets operate differently than U.S. markets, including different settlement and reporting requirements.

Certain client initiated cash transactions (contributions and withdrawals) require manual entry into our order management and portfolio accounting system. To mitigate any changes for error, operations analysts must have their transactions reviewed and signed off by another member of the Operations team prior to advising the trading desk.

Item 9 – Disciplinary Information

Investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or prospective client's evaluation of the investment adviser's business or the integrity of the investment adviser's management. HCM has no reportable disciplinary events to disclose.

Item 10 – Other Financial Industry Activities and Affiliations

HCM is an affiliate of Atlanta Life Insurance Company (ALIC). ALIC is under common control with HCM, as it is a wholly-owned subsidiary of Atlanta Life Financial Group. HCM manages ALIC assets and does not receive a fee. HCM may be introduced to clients or other relationships as part of its affiliation with ALIC.

Item 11 – Code of Ethics

HCM requires all officers, and employees to adhere to HCM's Code of Ethics. The purpose of the Code of Ethics is to ensure that HCM conducts its business with the highest level of ethical standards and fulfills its fiduciary duties to its clients. HCM has a duty to exercise its authority and responsibility for the benefit of its clients, to place the interests of its clients

first, to refrain from having outside interests that conflict with the interests of its clients, to safeguard clients' personal information, and to comply with all federal securities laws as they apply to the business of HCM. HCM and its employees must avoid any circumstances that might adversely affect or appear to affect its duty of loyalty to its clients.

HCM utilizes the SCT (formerly Compliance 11) system for monitoring personal securities transactions and other required compliance oversight and reporting including Gifts and Entertainment, Political Contributions, Outside Business Activities and Insider Trading. SCT is an automated compliance monitoring application that receives direct transaction feeds from associate brokerage accounts and HCM's order management system, Bloomberg AIM.

HCM, its employees or other affiliated persons, hereinafter "Access Persons", may buy or sell for their personal accounts securities identical to those recommended to clients. Additionally, any Access Person may have an interest or position in a certain security or securities which are also recommended to clients. As these situations may represent a potential conflict of interest, HCM established a Code of Ethics pursuant to Rule 204A-1, which includes the following restrictions in order to protect the interests of its clients:

The requirements and restrictions apply to all personal securities transactions of the Access Person and his/her immediate household. At the firm's discretion, exceptions may be granted in certain circumstances.

- No Access Person shall prefer his or her own interest to that of an advisory client.
- All personal securities transactions of Access Persons shall be subject to pre-clearance by a principal of HCM, except those meeting the "de minimis" requirement or other securities not required to be reported.
- Access Persons may not buy or sell securities for their personal accounts where their decision is substantially derived, in whole or in part, by reason of their employment with HCM.
- No Access Person may knowingly purchase any security in advance of a transaction being implemented for an advisory account with the intention of benefiting from transactions.
- Access Persons are required to submit personal holdings on SCT within 10 days of becoming an Access Person and annually thereafter.
- Access Persons are required to submit personal transaction reports on SCT at the end of each calendar quarter.
- SCT feeds of an Access Person's broker trade confirmations and account holdings may be utilized for reporting purposes provided that such materials provide all information required to be reported.
- Access Persons are prohibited from buying or selling a security or related security if a transaction was placed for a client within the previous five (5) days (deminimus exemptions apply.)

- Access Persons' personal trading may be subject to cancellation should a conflict arise.
- Access Persons are strictly prohibited from acquiring any securities in any initial public offering.
- Access Persons are prohibited from acquiring any securities pursuant to a private placement without prior written authorization by a principal of HCM.
- Access Persons are prohibited from actively engaging in short-term trading for profit.
- Any Access Person not in observance of the above may be subject to termination.

HCM maintains a Gifts and Entertainment Policy that places restrictions on gifts and entertainment given and received by HCM associates and details required reporting requirements. HCM prohibits all Political Contributions made by HCM and HCM associates.

HCM claims compliance with the CFA Institute Asset Manager Code of Professional Conduct and the CFA Institute Code of Ethics and Standards of Professional Conduct. These claims have not been verified by CFA Institute. The CFA Institute Code of Ethics and Standards of Professional Conduct is an Addendum to the HCM Code of Ethics.

A copy of HCM's Code of Ethics is available to clients or prospective clients upon request. All requests should be directed to Annette Marshall, Chief Compliance Officer, at hcmcompliance@herndoncap.com or 404-232-8806.

Item 12 – Brokerage Practices

Obtaining best execution is an important aspect of every trade that we place in client accounts. Best execution can be described as seeking the most favorable terms for completing client transactions considering all relevant circumstances at the time. HCM has a Best Execution Committee that provides oversight of the trading practices, including execution quality, soft dollars, directed brokerage, broker selection, and trade aggregation. The goal of the Best Execution Committee is to take a best practices approach to trading to ensure transactions are executed in a manner that is most beneficial to our clients.

HCM uses Bloomberg TCA ("BTCA") as our transaction cost analysis provider. Data is used to help measure best execution across the entire life cycle of a trade as well as a measuring rod for both brokers and traders. This data is discussed during the quarterly Best Execution Committee meetings.

As a matter of policy, as an investment advisor managing assets for Institutional, WRAP, and external models, we employ a rotation based trading strategy amongst our various client types when executing orders for those strategies with more than one client type. We believe this policy prevents our trading desk from competing against itself in the market place and causing stocks to move against us.

Broker Due Diligence

HCM selects broker/dealers it believes will execute orders at the most favorable prices reasonably obtainable and, in doing so, will consider a number of factors, including without limitation:

- Quality of execution (best execution statistics);
- Agreed upon commission rate;
- Financial strength and stability of the broker;
- Efficiency with which the transactions are effected;
- Specialization in a particular market;
- Quality of the research services provided by the broker/dealer;
- Other products and services available from the broker.

The reasonableness of commissions is based on the broker's ability to provide professional services, competitive commission rates, research and other services, which will help HCM in providing investment management services to clients. HCM may therefore use a broker who provides useful research and/or brokerage services even though a different broker may charge a lower commission.

As a result of the fact that certain HCM clients are also broker/dealers we utilize to execute client trades, a potential conflict of interest may arise. HCM has policies and procedures in place, including monitoring by our best execution committee and the use of BTCA to mitigate these potential conflicts of interest.

Research and Soft Dollar Benefits

Section 28(e) of the Securities Exchange Act permits advisers to use soft dollars, whereas a portion of client commissions is used to purchase research and brokerage services that assist the adviser in managing client accounts. Section 28(e) provides a safe-harbor permitting an investment adviser to cause an account to pay commission rates in excess of those another broker/dealer would have charged for effecting the same transaction, if HCM determines in good faith that the commission paid is reasonable in relation to the value of the research and brokerage services provided. When HCM uses client brokerage commissions to obtain research or other product or services, HCM receives a benefit because HCM does not have to produce or pay hard dollars for the research products or services.

Under the soft dollar arrangements, HCM receives both proprietary research created and developed by the brokers as well as third party research. This may cause HCM to select a broker based on the research received rather than on the client's interest in receiving the most favorable execution. Research services include, among other things, market, economic or financial data; a particular aspect of economics or on the economy in general; statistical information; data on pricing and availability of securities; financial publications;

electronic market quotations; analyses concerning specific securities, companies, industries or sectors; and market, economic and financial studies and forecasts. Although research will be used to service all clients, brokerage commissions paid by a client may be used to pay for research that is not used in managing the client's account.

Where HCM receives research products and/or brokerage services that do not directly benefit client accounts, HCM makes a good-faith allocation between the administrative benefits and the research services received, and the value of any administrative benefits will be borne by HCM (and paid for with hard dollars by HCM). In making good faith allocations between administrative benefits and research services, a conflict of interest may exist by reason of HCM's allocation of the costs of such benefits and services between those that primarily benefit HCM and those that primarily benefit its clients. HCM has policies and procedures in place, including monitoring by our Best Execution committee to mitigate this potential conflict of interest.

Directed Brokerage

Many clients, when undertaking an advisory relationship, already have a pre-established relationship with a broker and they will instruct HCM to execute all transactions through that broker. HCM requires that such instructions be in writing. In the event that a client directs HCM to use a particular broker or dealer, it should be understood that under those circumstances HCM would not have the authority to negotiate commissions, obtain volume discounts, and best execution may not be achieved. In addition, under these circumstances, a disparity in commission charges may exist with respect to the commission charged to other clients. As a result of such brokerage, client may pay a higher brokerage commission than might otherwise be paid if HCM had been granted discretion to select a broker to handle the client's account. In addition, HCM may be unable to bunch, block, or aggregate trades with those of other clients. The inability to bunch trades may result in the client's trades being executed at a price different from trades that are bunched and may be less favorable.

Aggregating Trades

HCM will aggregate trades providing that the following conditions are met:

1. HCM's policies for the aggregation of transactions shall be fully disclosed in the Form ADV, and to the broker/dealers through which such transactions will be placed.
2. HCM will not aggregate transactions unless 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 HCM's investment advisory agreement with each client for which trades are being aggregated.
3. No advisory client will be favored over any other client; each client that participates in an aggregated order will participate at the average share price for all HCM's transactions in a given business day, with transaction costs shared pro-rata based on each client's participation in the transaction.
4. If the aggregated order is filled in its entirety, it will be allocated among all clients included in the order. If the order is partially filled, it will generally be

- allocated pro-rata, based on the accounts included in the order, or randomly in certain circumstances.
5. Notwithstanding the foregoing, the order may be allocated on a basis different from pro-rata if all client accounts receive fair and equitable treatment, and the reason for different allocation is explained in writing.
 6. HCM will receive no additional compensation or remuneration of any kind as a result of the proposed aggregation.

Item 13 – Review of Accounts

Portfolio Managers and Associate Portfolio Managers review and monitor accounts under their management along with the daily oversight by HCM Compliance via the Bloomberg AIM Compliance Manager application to ensure that the investment strategy meets the objectives of the clients. The Investment Committee meets regularly to discuss changes to each strategy. The Investment Committee consists of the following members:

Drake Craig, CFA – President/Chief Operations Officer/Principal/Portfolio Manager
Kenneth Holley, CFA – Chief Investment Officer/Principal/Portfolio Manager
Randell A. Cain, Jr., CFA – Principal/Portfolio Manager
James Nelson, CFA – Co-Portfolio Manager and Deputy CIO
J. Keith Buchanan, CFA – Associate Portfolio Manager
Anuja Singha, Ph.D., CFA – Associate Portfolio Manager
Loren Compton-Williams – Associate Director of Research

HCM expects that clients receive account statements directly from the qualified custodian of their account. To the extent that HCM provides reports to clients, the nature and frequency of those reports are separately determined for each client. While reports are typically provided quarterly, clients will receive a report no less than annually. Reports can include information such as current holdings, market value, cost basis, transactions and realized or unrealized gains/losses. Wrap accounts or other clients received through an intermediary will receive reports directly from their program sponsor.

Item 14 – Client Referrals and Other Compensation

From time to time, HCM may agree to pay a referral fee pursuant to a contract to a third party or to an affiliate that refers someone as a client. The referral fee is a percentage of the investment advisory fee paid by the client. Payment of a referral fee does not result in additional cost to the client. Rather, the referral fee simply acts to reduce HCM's net revenue. The details of any such payments to a third party are described to clients as required, and acknowledged and accepted by those clients, in a signed Solicitors Disclosure Document prior to or at the time the client enters into an investment advisory agreement with HCM. All HCM third party arrangements are consistent with the requirements of Rule 206(4)-3.

Item 15 – Custody

HCM does not take custody of clients' assets. However, to the extent that HCM directly invoices the custodian for investment advisory fees, HCM is deemed to have custody. This practice is done pursuant to authorization provided by each client. Usually monthly, but no less than quarterly, clients receive account statements directly from the custodian of their account. Custodial statements include account holdings, market values and any activity that occurred during the period, including the deduction of investment advisory fees. HCM urges clients to compare information contained in reports provided by HCM with the account statements received directly from the account custodian. Differences in portfolio value may occur due to various factors, including but not limited to: (1) unsettled trades; (2) accrued income; (3) pricing of securities; and, (4) dividends earned but not received.

Item 16 – Investment Discretion

HCM manages client portfolios on a discretionary basis. In very limited circumstances, HCM will consider managing client portfolios on a non-discretionary basis. Clients grant HCM discretion over their account by providing authorization in the investment advisory agreement. This discretionary authority authorizes HCM to determine the type and amount of securities to be bought or sold, the broker/dealer to be used for transactions as well as the commission to be paid for each transaction. Investment discretion is limited only by specific instructions, guidelines and/or mandates provided by clients in writing and to which HCM agrees.

Item 17 – Voting Client Securities

HCM has a fiduciary obligation to, at all times, place the best interest of advisory clients (including plan participants and beneficiaries) as the sole consideration when voting proxies of portfolio companies. HCM retains Glass Lewis & Co. for proxy voting services. Glass Lewis will analyze the voting issues and carry out the actual voting process in accordance with its guidelines, which have been adopted by HCM's Proxy Committee, or in accordance with the proxy guidelines provided by the client. HCM provides Glass Lewis with a list of accounts and holdings each week to ensure that Glass Lewis has accurate records of the clients and their respective holdings for proxy purposes. Proxy issues receive consideration based on all relevant facts and circumstances.

Clients may direct their votes in a particular situation, obtain information from HCM about how their securities are voted, and/or obtain a copy of HCM Proxy Voting Policies and Procedures by contacting HCM directly.

Some accounts may wish to retain responsibility for proxy voting or assign that responsibility to a third party. In this case, clients will receive their proxies directly from

their custodian or transfer agent, or if HCM receives a proxy, HCM will forward it to them promptly. Clients can contact HCM directly with questions about any particular solicitation. In the case of ERISA accounts, such accounts must either provide HCM with a plan document that expressly precludes HCM from voting proxies or include in the contract that HCM will not vote proxies on behalf of the client. In the absence of such documentation, HCM has the legal responsibility and obligation to vote on behalf of any ERISA accounts.

HCM has established a Proxy Committee. The Proxy Committee meets annually to review and adopt proxy voting guidelines for the upcoming year. The Proxy Committee considers its fiduciary responsibility to all clients when addressing proxy issues. The Proxy Committee reviewed and accepted Glass Lewis' proxy voting guidelines and has instructed Glass Lewis to vote on its behalf in accordance with those guidelines for HCM's clients, or in accordance with the clients' provided custom guidelines. As Glass Lewis amends its guidelines, the Proxy Committee will review the amendments and provide Glass Lewis with voting instruction based on the terms of the amended guidelines.

As mandated by the U. S. Department of Labor, the Director of Operations maintains applicable records regarding proxy voting for accounts. The Director of Operations can access a report online on any given day. Any voting decision that may require a deviation from the standard policies will be deferred to the Proxy Committee for further analysis and a final decision. In these rare situations, outside legal counsel may be sought for additional guidance, and reasons for such action will be noted in the committee's "special" meeting minutes.

Regardless of any material conflict of interest, HCM will, at all times, vote in the best interest of the client. Glass Lewis, on behalf of HCM, votes proxies related to securities held by clients in a manner solely in the interest of the client. Proxy votes generally will be cast in favor of proposals that maintain or strengthen the shared interest of shareholders and management, increase shareholder value, maintain or increase shareholder influence over the issuer's board of directors and management, and maintain or increase the rights of shareholders; proxy votes generally will be cast against proposals having the opposite effect. In voting on each and every issue, Glass Lewis shall vote in the prudent and diligent fashion and only after a careful evaluation of the issue presented on the ballot.

Monthly, HCM will:

1. Review Glass Lewis reporting to verify that proxies received have been voted in a manner consistent with the Proxy Voting Policies and Procedures and the standard and custom guidelines (if any) issued by the client, or in the case of an employee benefit plan, the plan's trustee or other fiduciaries;
2. Provide a proxy voting report to those clients that request it, in a manner consistent with the client's request, which may vary.

It is HCM's policy not to act on the client's behalf in any class action or bankruptcy proceeding, including providing guidance. Should client insist, HCM's Counsel will take the

responsibility of acting on the client's behalf. In the event that proceeds from a Class Action are sent to our offices, the check will be promptly forwarded to the client.

Item 18 – Financial Information

A registered investment adviser is required to provide clients with certain financial information or disclosures about its financial condition. HCM has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.