

## Part 2A of Form ADV: Firm Brochure

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### ARGUS INVESTORS' COUNSEL, INC.

Soundview Plaza  
1266 East Main Street  
Stamford, CT 06902

203-316-9000

[www.argusinvest.com](http://www.argusinvest.com)

This brochure provides information about the qualifications and business practices of Argus Investors' Counsel, Inc. If you have any questions about the contents of this brochure, please contact us at (203) 316-9000. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority. "Brochure" is a term used in the federal regulations to describe this document and what it contains.

Additional information about Argus Investors' Counsel, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Argus Investors' Counsel, Inc. is registered as an investment adviser with the SEC. This registration does not imply a certain level of skill or training. The oral and written communications of an investment adviser provide information that may be used to decide whether to hire or retain that adviser.

January 24, 2017

## **Item 2 - Material Changes**

Argus Investors' Counsel has moved its office to a new location. Our new address is Soundview Plaza, 1266 East Main Street, Stamford, CT 06902. Our phone numbers, email addresses, and web site remain unchanged.

Argus Investors' Counsel is dissolving The Argus Diversified Fund, a pooled investment vehicle, and has asked the fund's auditor, Hoberman & Lesser LLP, to carry out a final liquidation audit. We will update our Form ADV when the fund is closed and the audit is completed.

Argus Research Group, the parent company of Argus Investors' Counsel, has entered into a solicitor agreement with Reserve Capital Corp., a Connecticut Corporation, to pursue sales and business development leads for various Argus products. Please see Item 14 – Client Referrals and Other Compensation for additional information regarding this agreement.

We will continue to ensure that clients receive a summary of any material changes to this and subsequent brochures within 120 days of the close of our fiscal year. We may also provide other ongoing information about material changes as necessary.

### **Full Brochure Available**

Our brochure may be requested by contacting Stephen Biggar, Director of Product Strategy, at (646) 747-5446 or by email at [sbiggar@argusresearch.com](mailto:sbiggar@argusresearch.com).

Additional information about Argus Investors' Counsel, Inc. is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with Argus Investors' Counsel, Inc. who are registered, or are required to be registered, as investment adviser representatives of Argus Investors' Counsel, Inc.

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## **Item 4 - Advisory Business**

### **Firm Description**

Argus Investors' Counsel, Inc. ("AIC") was incorporated on October 20, 1960 and was registered with the Securities and Exchange Commission as an Investment Adviser on December 16, 1960. AIC is a wholly owned subsidiary of The Argus Research Group, Inc.

### **Types of Advisory Services**

AIC provides investment management services, also known as asset management services. AIC's primary product is Core Equity. The AIC Core Equity Portfolios are typically comprised of stocks of large-cap U.S. companies. The securities of these companies are primarily listed on exchanges or are traded over the counter.

In addition, AIC provides portfolio consulting and supervisory services for unit investment trusts (UITs). In this role, Argus constructs portfolios of securities for inclusion in each UIT, which holds its securities for a period of 12-24 months.

While AIC does not produce or provide written investment research, Argus Research Company ("ARC"), a division of AIC, produces and provides written investment research to its clients and issues reports about securities by subscription. ARC also provides consultation services to its clients. AIC utilizes ARC as an independent research provider and pays ARC for such services.

ARC also furnishes investment advice and recommendations through the provision of model portfolios for certain of its investment strategies and periodic updates to these portfolios. ARC typically provides these services to trust companies or other investment advisory firms (trust companies and advisors). These trust companies and advisors utilize the model portfolios and periodic updates, either alone or together with other model portfolios, to manage the assets of their clients. In certain cases, ARC provides model portfolios and periodic updates to technology or other companies, or to turn-key asset management providers that operate platforms or programs (platform providers) in which trust companies and advisors participate. These platform providers make the model portfolios available to trust companies and advisors that use their platforms.

When providing model portfolio management services, neither AIC nor ARC generally has investment discretion. AIC and ARC generally do not have trading responsibilities for the models, nor do they have an advisory relationship with the clients of the trust companies and advisors. Model portfolios are not managed on the basis of the financial situation or investment objectives of individual clients. Given that ARC and AIC have no investment discretion when providing model portfolio management services, these services are sometimes referred to as nondiscretionary investment advisory services.

In connection with the model portfolio management services, ARC is generally responsible for providing investment research and investment evaluation services, all on a nondiscretionary basis.

AIC generally provides investment advice to the following types of clients: high-net-worth individuals, investment companies, pension and profit sharing plans, charitable organizations, government entities, and private funds. AIC's investment advisory services are limited to the discretionary and nondiscretionary management of investment portfolios and the additional services mentioned above.

### **Clients Needs**

AIC and the prospective client, or the client's consultant, will meet to determine a client's particular needs and tailor the portfolio accordingly. For example, some clients have imposed restrictions on the type of investment that AIC will make for them. AIC will monitor the portfolios on a regular basis to ensure compliance with those restrictions. The client may change these restrictions on written request.

Prior to engaging AIC to provide investment management services, the client will be required to enter into a written Investment Advisory Agreement with AIC. This agreement sets forth the terms and conditions under which AIC shall manage the client's assets. The client may designate a custodian to hold its securities and if it wishes, designate a broker or class of brokers to execute transactions. The client will enter into a separate custodial/clearing agreement with the custodian/broker dealer holding the assets.

The Investment Advisory Agreement between AIC and the client will remain in effect until terminated by either party, by written notice, in accordance with the terms of the Investment Advisory Agreement.

### **Wrap Fee Programs**

Argus does not currently participate in any wrap fee programs.

### **Client Assets**

As of October 31, 2016, AIC managed \$339,051,552 in client assets on a discretionary basis, including \$105,839,100 in UIT assets for which we provided ongoing advisory services. As of this date, AIC also provided nondiscretionary investment management services, including portfolio development, stock selection, and monitoring, for model portfolio products with total assets of \$1,331,049,945.

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

Fees for the Core Equity product are calculated based on total assets under management at the end of each quarter or month, depending on client preferences. Fees are billed quarterly in arrears of the quarter that services are rendered. Clients may elect to be billed directly for fees or to authorize AIC to directly debit fees from a designated client account to facilitate billing. Clients must consent in advance to direct debiting of their accounts.

### **Argus Investors' Counsel Annual Fee Schedule:**

Core Equity standard advisory fees for new clients are based on the following fee schedule and total assets under management. Actual investment advisory fees incurred by clients may vary, as all fees are subject to negotiation.

- For accounts of \$3 million or less, we charge an annual fee of:  

1.000% up to \$3 million of assets managed
- For accounts larger than \$3 million, we charge an annual fee at the following rates:  

0.750% on the first \$10 million of assets managed  
0.625% on the next \$20 million of assets managed  
0.500% on the next \$20 million of assets managed  
0.250% on assets in excess of \$50 million

AIC's investment management fee shall be prorated through the date of termination.

In addition to the standard advisory fees shown above, clients will incur discounted brokerage commissions and other transaction costs. AIC does not receive any compensation from brokerage commissions or custodial fees, nor does it sell other outside products. See Item 12 below for information about the selection of brokers by clients.

As noted in Item 4 above, Argus provides portfolio consulting and supervisory services for UITs. For these services, we receive quarterly fees based on a percentage of the asset value of each UIT. We also receive a fee following the end of each UIT's initial offering period based on a percentage of the UIT's asset value.

The fees ARC charges and receives for its model portfolio management services are generally asset-based fees that are paid quarterly by, or through, the trust company or advisor (which, in the case of managed account programs, may be the managed account program sponsor or platform provider). The fees generally equal a percentage of the total assets invested by the trust company or advisor clients in the model-portfolio-based investment strategy.

For model portfolio management services, the percentage fee charged is typically reduced at specific "breakpoints" based on the level of assets under management. The application of these breakpoints is

generally based on the aggregate AUM managed by the trust company or advisor using our model portfolio(s), rather than on the AUM of any specific client account. Fees may typically be negotiated only between ARC and the trust company or advisor.

ARC's fee for model portfolio management services may be payable either in arrears at or after the end of each quarter for services rendered during the quarter, or in advance of the quarter in which such services are rendered. If paid in advance, the trust company or advisor would receive a prorated refund in the event that ARC's services are terminated. The trust company or advisor also may prorate fees if a certain level of assets is contributed to, or withdrawn from, a client's account during an applicable period. Any refunding would take place as specified in the agreement between the trust company or advisor and ARC.

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

AIC does not use a "performance-based" fee structure. A performance-based fee is a fee based on a share of capital gains on, or capital appreciation of, the assets of a client (such as a client that is a hedge fund or other pooled investment vehicle).

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

AIC generally provides investment advice to the following types of clients: high-net-worth individuals, investment companies, pension and profit sharing plans, charitable organizations, government entities, and private funds.

AIC's minimum requirement to open or maintain a separate account is \$1 million for individuals and \$5 million for institutions.

AIC has discretion to waive the account size minimum when circumstances require. Exceptions may apply to AIC employees and their relatives, or to relatives of existing clients. Each such minimum is negotiable.

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

### **Core Equity Product**

In the Core Equity product, AIC uses a bottom-up stock selection process. The businesses of each company are reviewed to determine which have distinct uncorrelated return streams. Portfolio managers use Argus industry analysts to identify companies that are recognized leaders in industries that play significant roles in the U.S. economy. Portfolios constructed in this way are likely to achieve a greater level of diversification — and thus a more prudent level of risk — than those that invest in a smaller, more concentrated group of stocks. Over time, the stocks in each portfolio are rebalanced to maintain diversification. This strategy builds a diversified portfolio of about 50 equally weighted, medium- to large-cap equities of financially strong companies.

The turnover of stocks is relatively low, as AIC takes a long-term "investing" rather than a "trading" approach. After the stocks are selected and purchased, portfolio managers continuously monitor client portfolios. AIC maintains diversification by reducing exposure to stocks that have become overweighted versus the portfolio mean, and by adding to underweighted positions.

While AIC's investment approach considers the risk of loss, investing in any security involves a risk of loss that clients should be prepared to bear. Generally, investors in the Core Equity product face the following risks:

Interest-Rate Risk: Fluctuations in interest rates may cause investment prices to fluctuate.

**Market Risk:** The price of a security may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, changes in political, economic, and social conditions, as well as natural disasters, may trigger market events.

**Inflation Risk:** When any type of inflation is present, purchasing power erodes at the rate of inflation.

**Currency Risk:** AIC invests in many large-cap multinational companies that invest overseas. Overseas investments by domestic companies are subject to fluctuations in the value of the dollar against foreign currencies. This is also referred to as exchange rate risk.

**Business Risk:** This type of risk is associated with a particular industry or a particular company within an industry. For example, pharmaceutical companies depend on developing new products that must be approved by the FDA, a lengthy process, and then on successfully marketing these products before they can generate a profit. AIC tries to minimize this risk by creating portfolios with diversified sources of business revenue.

**Sector Risks:** This type of risk is associated with cyclical downturns in a particular industry or equity. AIC tries to minimize this risk by creating diversified portfolios, as stated above.

**Liquidity Risk:** AIC focuses on large-cap securities in order to reduce liquidity risk. Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.

**Financial Risk:** Excessive borrowing to finance a company's operations may hurt profitability because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

AIC tries to minimize these risks by creating diversified portfolios and by focusing on financially strong companies.

### **Activist Turnaround Strategy**

AIC's Activist Turnaround Strategy for UITs ("Turnaround UITs") produces a portfolio of deep-value stocks that may be poised to rebound because activist shareholders have built material ownership positions in the companies. Activist shareholders may be catalysts for improved company performance, and subsequently for significant price recovery and appreciation.

In addition to risks identified under the Core Equity product above, risks to investors in the Turnaround UITs include the following:

The Turnaround UITs invest in stocks of underperforming companies, and shareholder activism may not result in a change in performance or corporate governance. These stocks may be less liquid and experience greater price and trading volume volatility than those of other companies.

Activist shareholders may not be able to effect change at their target companies, and may decide to sell their equity positions. Market conditions may also work against the stocks of these companies even if the desired changes take place.

The stocks in Turnaround UITs tend to be issued by smaller companies. These stocks are often more volatile than those of larger firms due to low trading volumes and a lack of publicly available information as well as to factors such as intense competition, limited financial resources, and management inexperience.

The Turnaround UIT portfolio is not intended to change during the trust's life except in limited circumstances.



There is no assurance that the Turnaround UIT will achieve its investment objective. As in the case of any security, an investment in a UIT is subject to market risk — the possibility that the market values of securities owned by the UIT will decline and that the value of trust units may fall below the purchase price. Accordingly, a client can lose money investing in this trust.

#### **Argus Dividend Growers Total Return Trust Strategy**

The Argus Dividend Growers Total Return Trust Strategy for UITs (“Dividend Growers UITs”) (formerly the Argus Select 30 Total Return Strategy) seeks to provide investors with an above-average total return, that is, a total return, including capital appreciation and dividends, that exceeds that of the S&P 500 over the life of the trust. Beginning with a research coverage universe of 400 stocks, Argus analysts use growth, financial strength, risk, and management-quality screens to narrow the selection. Analysts then eliminate all securities that do not have 1-, 3-, or 5-year compound annual dividend growth rates of 10% or more and a 12-month BUY rating from Argus Research Co. From that selection, analysts make adjustments to ensure proper sector diversification, resulting in a final portfolio of 30 names.

In addition to risks identified under the Core Equity product above, risks to investors in the Argus Dividend Growers UITs include the following:

These UITs invest in REITs and real estate companies, whose business and stock price performance may be affected by changes in economic conditions, interest rates, and credit quality; declining real estate values; and cash available for distribution.

The stocks in the Dividend Growers UITs tend to be issued by smaller companies. These stocks are often more volatile than those of larger firms due to low trading volumes and a lack of publicly available information as well as to factors such as intense competition, limited financial resources, and management inexperience.

The Dividend Growers UIT portfolio is not intended to change during the trust’s life except in limited circumstances.

There is no assurance that the Dividend Growers UIT will achieve its investment objective. As in the case of any security, an investment in a UIT is subject to market risk — the possibility that the market values of securities owned by the UIT will decline and that the value of trust units may fall below the purchase price. Accordingly, a client can lose money investing in this trust.

#### **Argus Modern Innovators Strategy**

Innovation occurs when companies combine information, imagination, and initiative with resources and execution to develop high-value products and services. Using ARC’s research expertise, the Argus Modern Innovators Strategy for UITs (“Modern Innovators UITs”) aims to select stocks of companies with a track record of profitable innovation.

Beginning with the S&P 1500 Index, ARC selects an initial group of high-innovation companies based on a range of industry sources and the best judgment of its analysts. It then narrows the group to companies that exceed certain performance metrics that correlate with profitable innovation, with an emphasis on those that pay dividends. It then applies ARC’s six-point analytical methodology to generate a focused basket of at least 25 consistently profitable innovative companies from different market sectors.

In addition to risks identified under the Core Equity product above, risks to investors in the Modern Innovators UITs include the following:

These UITs, like those in the Select 30 Strategy, invest in REITs and real estate companies whose business and stock price performance may be affected by changes in economic conditions, interest rates, and credit quality; declining real estate values; and cash available for distribution.

The stocks in the Modern Innovators strategy tend to be issued by smaller companies. These stocks are often more volatile than those of larger firms due to low trading volumes and a lack of publicly available information as well as to factors such as intense competition, limited financial resources, and management inexperience.



The Modern Innovators UIT portfolio is not intended to change during the trust's life except in limited circumstances.

There is no assurance that the Modern Innovators UIT will achieve its investment objective. As in the case of any security, an investment in a UIT is subject to market risk — the possibility that the market values of securities owned by the UIT will decline and that the value of trust units may fall below the purchase price. Accordingly, a client can lose money investing in this trust.

### **Sustainable Impact Investing Trust**

The Sustainable Impact Investing Trust ("Sustainable Impact UIT") seeks to provide a total return by investing in the stocks of companies that meet the trust's investment criteria, including, but not limited to, environmental, social and governance factors. Total return includes capital appreciation and dividend income.

The trust seeks to achieve its objective through investment in equity securities. ARC bases its selection in part on criteria established by IW Financial. IW Financial rates companies according to its Best in Class Methodology ("BIC"). The BIC methodology evaluates the 3,000 largest publicly traded U.S. firms by market value and includes 60 distinct environmental, social, and governance criteria. BIC ratings range from 1 to 100, with 100 being the highest score.

ARC selects the portfolio from equity securities included in the S&P 1500 Index with a relatively high BIC rating and an Argus "Buy" rating. ARC considers only dividend-paying companies with market capitalizations greater than \$20 billion for inclusion in the trust portfolio. The goal is to identify large-cap companies that have high BIC scores and that signal they value their shareholders by paying a dividend.

In addition to risks identified under the Core Equity product above, risks for investors in the Sustainable Impact Investing Trust include the following:

The trust's portfolio selection criteria exclude securities of certain issuers for nonfinancial reasons, including environmental, social and governance factors. As a result, the trust may forgo some market opportunities available to a portfolio that does not use these criteria.

The trust's focus on sustainable impact investments may affect its exposure to certain sectors or issuers and may impact the trust's relative investment performance, positively or negatively, depending on whether such sectors or issuers are in or out of favor in the market.

The Sustainable Impact Investing Trust portfolio is not intended to change during the trust's life except in limited circumstances.

### **International Dividend Seekers Trust**

The International Dividend Seekers Trust ("Dividend Seekers UIT") seeks to provide high dividend income with the secondary objective of capital appreciation.

The security selection process begins by identifying an initial universe of depositary receipts and securities with similar characteristics from the BNY Mellon ADR Index. All selections are either "Level 2" or "Level 3" securities. From this initial universe, ARC eliminates companies that have not paid dividends in the trailing 12-month period, and identifies those it believes will pay sustainable dividends.

In addition to risks identified under the Core Equity product above, risks for investors in the International Dividend Seekers UIT include the following:

The securities in the trust are based outside the United States, and are subject to different economic, regulatory, currency and geopolitical risks.

ADRs, GDRs and securities with similar characteristics as depositary receipts may be less liquid than the underlying shares in their primary trading market.

Any distributions paid to the holders of depositary receipts, whether ADRs or GDRs, are usually subject to a fee charged by the depositary.

Holders of depositary receipts may have limited voting rights pursuant to a deposit agreement between the underlying issuer and the depositary.

Investment restrictions in certain countries may adversely impact the value of depositary receipts as such restrictions may limit the ability to convert equity shares into depositary receipts and vice versa.

The International Dividend Seekers portfolio is not intended to change during the trust's life except in limited circumstances.

### **Model Portfolios**

For the model portfolios, ARC uses a bottom-up stock selection process that is run by a team of analysts and strategists. The universe of potential companies is limited to the ARC coverage universe. The model portfolio investment management team meets regularly to review potential changes to the models. Both BUY-rated stocks and HOLD-rated stocks are suitable for inclusion. Changes to the model portfolios have historically been made on a monthly basis and communicated by e-mail to clients. No single issue is meant to represent more than 5% of any model portfolio or less than 2% of any model portfolio, but the high volatility of individual holdings may cause one or more holdings to exceed these thresholds.

### **Item 9 - Disciplinary Information**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

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

AIC is the investment manager for a limited partnership that invests in U.S.-listed securities. This limited partnership is The Argus Diversified Equity Fund, Limited Partnership ("Diversified"). Diversified serves as an investment vehicle and was formed to enable accredited investors to invest funds in amounts smaller than the usual minimum account size. Diversified invests in mid- to large-cap U.S.-listed equities. The general partner of Diversified, Argus Fund Managers, Inc. ("Fund Managers"), is affiliated with AIC and is wholly owned by The Argus Research Group, Inc. ("Group"). Group is AIC's parent corporation. Fund Managers has retained AIC as the investment adviser for Diversified. AIC does not solicit clients for this product.

As noted in the Material Changes section above, AIC is dissolving the Diversified Fund and has asked the fund's auditor, Hoberman & Lesser LLP, to carry out a final liquidation audit. We will update our Form ADV when the fund is closed and the audit is completed.

AIC is an affiliate of Vickers Stock Research Corp. ("Vickers"). Vickers provides information on stock ownership based on public SEC filings. AIC is also an affiliate of Argus Global Equity Analytics, Ltd. ("Global Equity") a London-based company.

While AIC does not produce or provide written investment research, Argus Research Company ("ARC"), a division of AIC, produces and provides written investment research for its clients and issues printed and online reports about securities by subscription. AIC uses ARC as an independent research provider and pays ARC for such services. We note that AIC and ARC, as units of The Argus Research Group, have certain employees in common, including those with both research and portfolio management responsibilities, and that ARC employees participate in the management and marketing of the AIC core equity strategy and UIT and model portfolio products.

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

### **Code of Ethics**

Below is a brief description of AIC's Code of Ethics, which it has adopted pursuant to Rule 204 A-1 under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). AIC's Code of Ethics is predicated on the principle that AIC and its representatives owe a fiduciary duty to, and will serve the best interests of, their clients.

AIC requires officers, directors (or other persons occupying a similar status or performing similar functions), employees, and others who provide investment advice on its behalf and are under its supervision and control to:

- Comply with high standards of business conduct and fiduciary duty to clients.
- Comply with applicable federal securities laws.
- Comply with certain policies and procedures regarding personal trading, as described in the Personal Trading section below.
- Promptly report any violations of the Code of Ethics to our chief compliance officer.
- Provide AIC with a written acknowledgment of their receipt of the Code of Ethics and any amendments.

### **The Code of Ethics Requires AIC to:**

- Review reports of personal securities transactions and holdings.
- Provide all individuals listed above with a copy of our Code of Ethics and any amendments.

AIC has also adopted additional policies and procedures that describe how it controls sensitive information and the steps it takes to prevent employees and other individuals listed above from misusing their inside positions at clients' expense.

We will provide a copy of our Code of Ethics to any client or prospective client upon request.

### **Participation or Interest in Client Transactions**

AIC does not carry out principal securities transactions for client accounts. AIC is not a broker-dealer and therefore cannot and does not buy or sell securities from client accounts as a principal, nor does it engage in cross transactions. We purchase and sell all equities on the open market and do not transfer any equities between client portfolios. AIC and its related persons may invest in the same securities that it recommends to clients. In the event that it does invest in these same securities, AIC will comply with the policies and procedures set forth in Personal Trading below.

As described in Item 10 - Other Financial Industry Activities and Affiliations, AIC is the investment manager for Diversified, a limited partnership. One of AIC's affiliates is the General Partner of Diversified. When AIC or its related entities engage in the purchase or sale of equities, these purchases or sales may or may not correspond to purchases or sales in any other client portfolios. However, such purchases or sales are based on the consistent strategy outlined above.

### **Personal Trading**

AIC has a "prohibited list" pertaining to Argus Research recommendations. This list applies to personal trading by employees at both ARC and AIC, the investment advisor. The prohibited list does not contain any nonpublic information; rather, it refers to changes in ratings and earnings estimates that have already been made available to other clients.

AIC has an obligation to its clients to adhere to agreed-upon investment strategies, as outlined above. While AIC reads ARC research, as do many other ARC clients, AIC is not obligated to follow ARC recommendations or suggestions. As explained in Item 8 - Investment Strategies in connection with the AIC Core Equity product, stocks in each client's portfolio are pared back or added (sold or purchased) to

maintain diversification and lessen risk. Therefore, it is the strategy that determines the timing of a purchase or sale, regardless of any recommendation made by Argus Research Co.

## **Item 12: Brokerage Practices**

In this item, we describe the factors that we consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (such as commissions).

### **Research and Other Soft Dollar Benefits**

We do not receive research or other products or services -- other than execution -- from any broker-dealer or third party in connection with client securities transactions. These products and services are commonly known as "soft dollar benefits."

### **Directed Brokerage**

AIC selects brokers based on what it believes will be in the best interest of its clients. Clients may direct brokerage with respect to their accounts. However, AIC may be unable to achieve the most favorable execution of these client transactions. Directing brokerage may cost clients more money. For example, in a directed brokerage account, the client may pay higher brokerage commissions because AIC may not be able to aggregate orders to reduce transaction costs. The client may also receive less favorable prices when using directed brokerage.

Clients may select brokers to trade their accounts (directed trading). They may also select custodians. If a client asks for a recommendation from AIC, factors which AIC will consider in using or recommending a particular broker/dealer/custodian include pricing, execution, service, and reputation. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of broker-dealer services. Although AIC will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions.

### **Aggregation of the Purchase or Sale of Securities**

AIC generally does not need to aggregate the purchase or sale of securities for various client accounts. Because of its investment strategy, trades are made when equities reach a certain percentage-point weighting in each client's portfolio. As a result, AIC is not likely to consistently make trades in the same security for a number of accounts.

Under certain conditions, however, such as when a new stock is added to or deleted from all accounts, orders are aggregated. In order to be fair to all clients, trades are made, if possible, through the same broker with the request that they be made as a block. Where different brokers need to be involved, AIC portfolio managers will either place the orders at a price limit or on a rotation basis. When one broker is used on an order and the order is filled at different prices, all clients will receive an average price fill.

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

AIC portfolio managers regularly review client accounts, considering the client's current security positions and the likelihood that the performance of each security will contribute to the portfolio. In addition, the investment committee conducts periodic reviews that may be triggered by new developments in the general economy, an industry, or a specific company.

AIC provides clients with statistical reports setting forth their holdings, amount, cost, market values, income and yield. These reports are provided either quarterly or monthly, at the client's option. AIC also provides these reports at any time on client request.

As part of our model portfolio management services, ARC provides trust companies and advisors with model portfolios and updates thereto, as well as with model performance and other reports as reasonably requested. ARC's reporting requirements typically are set forth in our agreements with trust companies and advisors.

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

Argus Research Group, the parent company of Argus Investors' Counsel, has entered into a solicitor agreement with Reserve Capital Corp., a Connecticut Corporation, to pursue sales and business development leads for various Argus products. Reserve is a third-party marketing firm and not a broker-dealer. If a client referred by Reserve enters into an investment advisory agreement with Argus Investors' Counsel or purchases other Argus services, Argus Research Group will pay a commission to Reserve. The referral agreement between Reserve and Argus will not result in any additional charges to clients beyond the normal level of Argus advisory fees.

When referring a client, Reserve will provide the client with a copy of the Argus Investors' Counsel ADV Part 2A brochure and have the client complete a solicitor's disclosure statement. The referral agreements between Argus and Reserve are in compliance with state and federal securities rules regarding paid solicitor arrangements.

## **Item 15 - Custody**

All assets are held at qualified custodians and these custodians provide account statements directly to clients at their address of record on a monthly and/or quarterly basis. Statements from custodians should be reviewed and compared to the quarterly reports that clients receive from AIC.

Because AIC has constructive custody over Diversified, the fund is audited by an outside accounting firm. Partners in Diversified receive quarterly account statements provided by an independent fund administrator, SS&C Technologies, showing their partnership interests. In addition, Partners in Diversified receive monthly account statements from the custodian Sterne Agee, which is the clearing agent for the broker, Source Capital, where Diversified has its account. AIC is dissolving the Diversified Fund and has asked the fund's auditor, Hoberman & Lesser LLP, to carry out a final liquidation audit. We will update our Form ADV when the fund is closed and the audit is completed.

## **Item 16 - Investment Discretion**

An adviser has "discretionary authority" if it is authorized to make purchase and sale decisions for client accounts. An adviser also has "discretionary authority" if it is authorized to select other advisers for a client. AIC accepts "discretionary authority" to manage securities accounts on behalf of clients.

Clients may place limitations on this authority. For example, clients may ask AIC not to invest in securities of particular issuers. Some of AIC's clients impose limitations on the securities to be bought and sold, and the amount of such securities to be bought and sold. AIC manages portfolios for such clients in accordance with their guidelines and philosophies.

AIC follows certain procedures before it assumes discretionary authority. AIC will not manage an account as discretionary unless it obtains client consent in the Investment Advisory Agreement to authorize the use of discretionary authority.

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

AIC accepts authority to vote client securities where the client has authorized such in the Investment Advisory Agreement. AIC's voting policies and procedures, adopted pursuant to Rule 206(4)-6 under the Advisers Act, are reasonably designed to ensure that it votes client securities in the best interest of clients. AIC's clients can direct AIC's vote in a particular solicitation by providing AIC with specific written voting instructions. If a conflict of interest between AIC and a client should occur, it will be disclosed to the client.

AIC's clients may contact AIC at the above address or telephone number to obtain information about how AIC voted with respect to their securities. AIC will furnish a copy of its proxy voting policies and procedures to clients upon request.

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

AIC is not aware of any financial condition that is reasonably likely to impair its financial ability to meet its contractual commitments to clients.

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