

# Callan

Item 1 – Cover Page

**Part 2A of Form ADV  
Investment Adviser Brochure**

## **Callan LLC**

600 Montgomery Street, Suite 800

San Francisco, CA 94111

Telephone: (415) 974-5060

Website: [www.callan.com](http://www.callan.com)

LinkedIn page: <https://www.linkedin.com/company/21461/>

Twitter: <https://twitter.com/CallanLLC>

Contact information

Ann C. De Luce

Chief Compliance Officer

[deluce@callan.com](mailto:deluce@callan.com)

***This brochure provides information about the qualifications and business practices of Callan LLC. If you have any questions about the contents of this brochure, please contact us at the telephone number or email address listed above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.***

***Callan is an SEC registered investment adviser. This registration does not imply a specific level of expertise, skill or training. This registration does not imply a recommendation by the United States Securities and Exchange Commission or any state securities authority.***

***Additional information about Callan is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).***

**Item 2 – Material Changes**

Effective September 1, 2017, Callan changed its legal form from a corporation to a limited liability company and changed its name to Callan LLC from Callan Associates Inc. ("Callan").

**Item 3 – Table of Contents**

<b>ITEM 1 – COVER PAGE .....</b>	<b>1</b>
<b>ITEM 2 – MATERIAL CHANGES .....</b>	<b>2</b>
<b>ITEM 3 – TABLE OF CONTENTS .....</b>	<b>3</b>
<b>ITEM 4 – ADVISORY BUSINESS .....</b>	<b>4</b>
<b>ITEM 5 – FEES AND COMPENSATION .....</b>	<b>10</b>
<b>ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....</b>	<b>12</b>
<b>ITEM 7 – TYPES OF CLIENTS .....</b>	<b>12</b>
<b>ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....</b>	<b>13</b>
<b>ITEM 9 – DISCIPLINARY INFORMATION .....</b>	<b>15</b>
<b>ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.....</b>	<b>15</b>
<b>ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....</b>	<b>16</b>
<b>ITEM 12 – BROKERAGE PRACTICES.....</b>	<b>17</b>
<b>ITEM 13 – REVIEW OF ACCOUNTS.....</b>	<b>18</b>
<b>ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION .....</b>	<b>18</b>
<b>ITEM 15 – CUSTODY .....</b>	<b>19</b>
<b>ITEM 16 – INVESTMENT DISCRETION .....</b>	<b>19</b>
<b>ITEM 17 – VOTING CLIENT SECURITIES.....</b>	<b>19</b>
<b>ITEM 18 – FINANCIAL INFORMATION .....</b>	<b>19</b>

#### **Item 4 – Advisory Business**

Founded in 1973 and headquartered in San Francisco, California, Callan LLC (“Callan”), a SEC-registered investment adviser, is one of the largest independently-owned investment consulting firms in the country. Callan conducted business as Callan Associates Inc., a California corporation until September 1, 2017 when it converted its form of organization to a limited liability company under the name Callan LLC. All references to Callan in this brochure are to Callan LLC and its predecessor corporation, as the context may require.

Callan provides services through four distinct lines of business:

(I) The Fund Sponsor Consulting Group (FSC)

Fund Sponsor Consulting serves sponsors of defined benefit plans, defined contribution plans, endowments, foundations, insurance companies, healthcare organizations, and other large institutional asset pools. Supported by a deep team of research professionals, this division is organized to deliver customized solutions that meet the needs of even the most sophisticated institutional investment programs. Services include strategic planning, plan implementation, monitoring and evaluation, and continuing education. Products and services for fund sponsor organizations offered through FSC services include:

(1) Strategic Planning:

- (a) Investment Policy - this service provides assistance to fund sponsors in formulating and articulating in a formal document the investment policies and guidelines of the retirement program, endowment or foundation.
- (b) Asset Allocation/Liability - this service provides information concerning the effect of asset mix on projected assets, liabilities and cash flows for pension plans and insurance pools.
- (c) Asset Allocation and Spending Studies – this service provides information concerning the effect of asset mix on projected assets, spending needs, and cash flows for endowment and foundation clients.
- (d) Manager/Investment Structure - this service provides information concerning the structure of an asset class within a retirement program, endowment or foundation, taking into consideration the fund’s goals and objectives, market and fund sponsor environments, among other factors.
- (e) Investment Structure Evaluation – for defined contribution clients, this service provides an in-depth analysis of the investment line-up including both the number of and the types of investment options.

(2) Plan Implementation:

- (a) Manager/Record Keeper Search - this service provides fund sponsors with information concerning the styles and relative attributes of various investment managers or record keepers.
- (b) Fee Analysis – this service, offered to defined contribution plans, analyzes fees paid to service providers.
- (c) Custody, Securities Lending and Transition Management - this service provides fund sponsors with information concerning the relative attributes of various custodial, securities lending or transition management providers.
- (d) Alternative Investments - this service assists in the development, implementation and evaluation of institutional real estate, hedge fund and other alternative investment programs.

(3) Monitoring and Evaluation:

- (a) Investment Measurement - this reporting service provides summary performance measurement data on an investment portfolio and will, if requested by the client, include making relevant benchmark and peer group comparisons and analyses.
- (b) Performance Attribution - this service analyzes portfolio and/or fund performance, broken down into its various sub-component sources of risk and return.

- (c) Performance Evaluation Services - these services are comprised of a flexible PC-based tool to produce performance analysis reports, and a quarterly report which provides a comparative review incorporating analysis of performance, portfolio characteristics, product assets, fees and product resources.
  - (d) Other Customized Reporting services may be provided upon client request.
- (4) Continuing Education:
- (a) Callan Institute ("the Institute"): The Institute functions as an educational institution servicing clients (including fund sponsors, investment managers, and financial intermediaries) and our associates by independently analyzing trends in the industry via research communications and conference programs. Clients receive research papers, Callan Insights and DC Insights (an electronic news service that reports developments within the institutional investment arena), surveys, quarterly data, and other online updates, and clients can participate in our educational programs (conferences, webinars, and workshops). Clients also receive newsletters including the Capital Markets Review, Defined Contribution Observer, Private Market Trends, Real Assets Reporter, and Hedge Fund Monitor. The Institute offers summaries of our educational conferences/workshops and access to the on-line library of archived research.
  - (b) Center for Investment Training: The Center for Investment Training, more commonly known as the "Callan College", offers one and one-half to two-day programs several times each year and also provides customized sessions. The "Callan College" is designed to provide investment fiduciaries and their advisers with basic-to-intermediate-level of instruction on prudent investment practices. The subjects discussed include fiduciary standards and responsibilities, capital market theory, asset allocation, the writing of investment policy statements, investment manager structure and search, and performance measurement and evaluation. Additional one-day "Callan College" programs on such subjects as defined contribution, real estate, hedge funds, and private markets are also periodically offered to fund sponsors, investment managers, and/or financial intermediaries.

(II) The Independent Adviser Group (IAG)

IAG delivers consulting resources and services to a select group of independent consulting firms and financial intermediaries. IAG delivers to its clients the tools to provide fiduciaries, trustees, and high net-worth individuals with objective investment analysis and investment solutions that were previously available to only the largest of institutions. These solutions include strategic planning, plan implementation, monitoring and evaluation, and continuing education.

Products and services for investment consulting firms and financial intermediaries offered through the IAG include:

- (1) Bundled Consulting:
- (a) Capital Markets Research and Asset Optimization Program - this service provides insights on Callan's capital market assumptions and allows the IAG clients to run customized optimizations based upon their clients' requirements. Asset Optimization software is provided.
  - (b) Consulting Templates - this service provides templates for a range of investment policy statements, data-gathering checklists, and storyboards to assist the IAG client in clearly documenting their clients' investment management processes.
  - (c) Middle Market Matrix (MAX) - this service provides a set of reports/information on a collection of separate account managers and mutual funds that have passed Callan's due diligence process that provides the IAG clients with analytical information about institutional quality investment managers.
  - (d) Performance Evaluation Services - these services are comprised of a flexible PC-based tool to produce performance analysis reports, and a quarterly report which

provides a comparative review incorporating analysis of performance, portfolio characteristics, product assets, fees and product resources.

- (e) Research and Analytics - this service, provided through a password-protected internet site called the "OpCenter", allows IAG client access to most IAG service offerings. For example, the client can access detailed profiles of MAX managers or funds, select from a list of mutual funds to create their own mutual fund performance report, access their client performance reports or browse through our document archives for a collection of research support and templates.
- (2) Customized Consulting: Refer to Services in Item 4(I) above as each of these services is available to IAG clients on a customized basis.
- (3) Callan Unified Managed Account (UMA) – Callan's UMA program offers access to independent account managers (sub-advisers) who have been screened by Callan and whose trading activities are coordinated by an independent overlay manager selected by Callan. IAG clients can coordinate the opening of a single-custodial UMA account for their clients and can create customized individual manager allocations on a per-account basis. Although Callan does not exercise discretion over the accounts managed through the UMA program, Callan does have the authority to replace the overlay manager and to recommend changes to the sub-advisers engaged by the overlay manager to implement the program.
- (4) Continuing Education:
  - (a) Callan Institute ("the Institute"): The Institute functions as an educational institution servicing clients (including fund sponsors, investment managers, and financial intermediaries) and our associates by independently analyzing trends in the industry via research communications and conference programs. Clients receive research papers, Callan Insights and DC Insights (an electronic news service that reports developments within the institutional investment arena), surveys, quarterly data, and other online updates, and clients can participate in our educational programs (conferences, webinars, and workshops). Clients also receive newsletters including the Capital Markets Review, Defined Contribution Observer, Private Market Trends, Real Assets Reporter, and Hedge Fund Monitor. The Institute offers summaries of our educational conferences/workshops and access to the on-line library of archived research.
  - (b) Center for Investment Training: The Center for Investment Training, more commonly known as the "Callan College", offers one and one-half to two-day programs several times each year and also provides customized sessions. The "Callan College" is designed to provide investment fiduciaries and their advisers with basic-to-intermediate-level of instruction on prudent investment practices. The subjects discussed include fiduciary standards and responsibilities, capital market theory, asset allocation, the writing of investment policy statements, investment manager structure and search, and performance measurement and evaluation. Additional one-day "Callan College" programs on such subjects as defined contribution, real estate, hedge funds, and private markets are also periodically offered to fund sponsors, investment managers, and/or financial intermediaries.

(III) The Institutional Consulting Group (ICG)

ICG provides investment manager clients with research, education, performance measurement, and database and analytical tools that help them better serve the needs of institutional investors.

Products and services to investment management firms offered through the ICG include:

- (1) Performance Evaluation Services - these services are comprised of a flexible PC-based tool to produce performance analysis reports, and a quarterly report which provides a

comparative review incorporating analysis of performance, portfolio characteristics, product assets, fees and product resources.

- (2) Style, Trend, Analysis, and Research Report (STAR) - this service includes an annual report and mid-year update which quantifies the institutional pool of assets and flows within a style, examines asset concentration and the largest players and identifies top asset gatherers by product size.
- (3) Market Intelligence Report – this is a quarterly publication capturing quantitative and qualitative issues and trends in institutional investing.
- (4) Continuing Education:
  - (a) Callan Institute (“the Institute”): The Institute functions as an educational institution servicing clients (including fund sponsors, investment managers, and financial intermediaries) and our associates by independently analyzing trends in the industry via research communications and conference programs. Clients receive research papers, Callan Insights and DC Insights (an electronic news service that reports developments within the institutional investment arena), surveys, quarterly data, and other online updates, and clients can participate in our educational programs (conferences, webinars, and workshops). Clients also receive newsletters including the Capital Markets Review, Defined Contribution Observer, Private Market Trends, Real Assets Reporter, and Hedge Fund Monitor. The Institute offers summaries of our educational conferences/workshops and access to the on-line library of archived research.
  - (b) Center for Investment Training: The Center for Investment Training, more commonly known as the “Callan College”, offers one and one-half to two-day programs several times each year and also provides customized sessions. The “Callan College” is designed to provide investment fiduciaries and their advisers with basic-to-intermediate-level of instruction on prudent investment practices. The subjects discussed include fiduciary standards and responsibilities, capital market theory, asset allocation, the writing of investment policy statements, investment manager structure and search, and performance measurement and evaluation. Additional one-day “Callan College” programs on such subjects as defined contribution, real estate, hedge funds, and private markets are also periodically offered to fund sponsors, investment managers, and/or financial intermediaries.

(IV) The Trust Advisory Group (TAG)

TAG is our asset management and implemented consulting division. TAG specializes in the design, implementation, and ongoing management of multi-manager and discretionary portfolios for institutional investors. Seen through the lens of Callan’s consulting experience, TAG applies a process-driven approach to building efficient, low-cost mixes of sub-adviser portfolios with clearly articulated goals and objectives. TAG serves as the sponsor and adviser to multi-manager equity funds: a small cap fund operating within the Diversified Alpha Group Trust, and a micro-cap fund operating within the Callan Multi-Manager Trust. In addition, TAG is the discretionary investment adviser to separate retirement program clients that feature either a series of proprietary target date mutual funds or collective investment trusts for use by employees of the sponsoring client and its affiliates in their 401(k) and 403(b) retirement plans. TAG also serves as the Outsourced Chief Investment Officer (OCIO) of certain discretionary and non-discretionary adviser clients. In addition, TAG is the non-discretionary adviser to a series of target maturity funds known as Callan GlidePath<sup>®</sup> Funds.

TAG focuses its efforts in two different areas:

- (1) Discretionary Services:

- (a) Private Trusts - Callan, through TAG, is the adviser and sponsor of two diversified, commingled, small cap and micro-cap equity trust funds, the Diversified Alpha Group Trust and the Callan Multi-Manager Trust (Private Trusts), each with a bank trustee.

The Diversified Alpha Group Trust is offered privately to qualified corporate pension plans and profit sharing plans, and government pension plans. It is designed for large plans generally with a minimum investment of \$50 million.

The Callan Multi-Manager Trust is offered privately to qualified defined benefit plans, foundations, and endowments, including permanent funds, which are funds set up by governments and non-profit organizations whose principal is invested in perpetuity and only the fund's earnings are used for some specific financial purpose or obligation.

TAG is responsible for the overall management of the Private Trusts. TAG does not offer advice on, nor have discretion over, the securities held in the Private Trusts. TAG engages, monitors, and as necessary, replaces the sub-advisers who are responsible for investing and reinvesting the assets (including having all authority for security-level decisions) of the Private Trusts in accordance with the investment guidelines established for each sub-adviser by TAG.

- (b) Discretionary Consulting Services – Callan, through TAG, acts as the discretionary adviser to large foundations and to large corporate 401k plans. In this role, TAG acts as an OCIO with discretion over a wide range of decisions including asset allocation, portfolio structure, glidepath design, manager selection, manager termination, and rebalancing. TAG also has discretion as to the purchase and sale of mutual fund shares and interests in private funds in separate accounts for these clients, but does not otherwise have discretion over the securities held in client investments. TAG engages, monitors, and as necessary, replaces the sub-advisers who are responsible for investing and reinvesting the assets (including having all authority for security-level decisions) of these clients in accordance with the investment guidelines established for each sub-adviser by TAG.
- (c) Retirement Program Funds – Callan, through TAG, acts as the investment adviser to proprietary mutual funds and collective investment trusts sponsored by US-based corporations and/or their related entities for use in their defined contribution plans. These funds consist of Target Date Funds (each a “TDF” and collectively, the “TDFs”) and Asset Class Funds (“Core Funds”). Callan, as the investment adviser, is responsible for the design and maintenance of the asset allocation (or glidepath) for the TDFs. Each TDF operates as a “fund of funds” and invests in a combination of underlying Core Funds and underlying unaffiliated funds (“Underlying Unaffiliated Funds”). Collectively, these are the “Underlying Funds” and represent a broad array of investments and investment styles. Callan is responsible for the selection of Underlying Funds in the TDFs. In addition, Callan provides overall investment management services to the Core Funds through a “manager of managers” structure whereby third party sub-advisers identified by Callan provide day to day portfolio management of the assets in the Core Funds subject to Callan’s overall investment management discretion.

(2) Non-Discretionary Services:

- (a) Target Maturity Collective Funds - Callan, through TAG, acts as the non-discretionary adviser to a series of target maturity collective funds (Collective Funds) sponsored by a large Delaware state-chartered trust company (Trust Company) known as the Callan GlidePath® Funds. These Collective Funds are broadly diversified by asset class and investment style. They have an asset allocation that becomes increasingly conservative over time. The Collective Funds achieve their diversification by



investing in other collective funds and/or mutual funds managed by a diverse group of investment advisers. The Collective Funds are designed as a single-fund investment solution for participants of defined contribution plans.

TAG is responsible for the design of the asset allocation (or glidepath) for the Collective Funds. TAG is also responsible for providing due diligence and advice to the Trust Company on the underlying collective funds and/or mutual funds in which the Collective Funds are invested. TAG is further responsible for monitoring the asset allocation of the Collective Funds, as well as the performance of the underlying funds over time, and for providing the Trust Company with periodic rebalancing advice. The Trust Company has final discretionary authority over the Collective Funds, including all security level decisions related to the underlying funds. The advisers for the underlying funds have authority over all security level decisions within those funds.

- (b) Callan, through TAG, acts as a non-discretionary sub-adviser to a special purpose Collective Investment Trust (CIT) sponsored by a global trust company. The CIT is managed for the exclusive use of participants within qualified defined contribution plans sponsored by a US-based corporation and/or its related entities. In this role, Callan has oversight and monitoring responsibility for various funds offered through the CIT.

As of December 31, 2016, total TAG assets under management were \$22,665,253,709, broken down as follows:

- (1) Discretionary assets of \$20,635,005,248.

Callan does not and will not provide consulting advice to a Fund Sponsor Consulting client with respect to an investment of plan assets in the Discretionary Services. The reason for this restriction is the fact that Callan receives compensation from the assets of the Discretionary Services. Under the Employee Retirement Income Security Act of 1974, as amended, it is not permissible for Callan, as an investment consultant, to provide consulting advice to a plan regarding an investment in the Discretionary Services while, at the same time, receiving compensation from the Discretionary Assets.

Furthermore, Callan's Fund Sponsor Consulting clients cannot invest their plan assets in the Discretionary Services unless they amend their consulting contract with Callan to acknowledge the potential conflict of interest created by the fact that Callan receives compensation from the assets of the Discretionary Services. The consulting contract amendment formally precludes Callan from providing any consulting advice with respect to plan assets invested in the Discretionary Services, either before, during, or after the investment is made.

- (2) Non-Discretionary assets of \$2,030,248,461.

Callan does not and will not provide consulting advice to a Fund Sponsor Consulting client with respect to an investment of plan assets in the Non-Discretionary Services. The reason for this restriction is the fact that Callan receives compensation from the assets of the Non-Discretionary Services. Under the Employee Retirement Income Security Act of 1974, as amended, it is not permissible for Callan, as an investment consultant, to provide consulting advice to a plan regarding an investment in the Non-Discretionary Services while, at the same time, receiving compensation from the Non-Discretionary Services.

Furthermore, Callan's Fund Sponsor Consulting clients cannot invest their plan assets in the Non-Discretionary Services unless they amend their consulting contract with Callan to acknowledge the potential conflict of interest created by the fact that Callan receives compensation from the assets of the Non-Discretionary Services. The consulting contract amendment formally precludes Callan from providing any consulting advice with respect to

plan assets invested in the Non-Discretionary Services, either before, during, or after the investment is made.

TAG clients receive Callan's education services through:

- (a) Callan Institute ("the Institute"): The Institute functions as an educational institution servicing clients (including fund sponsors, investment managers, and financial intermediaries) and our associates by independently analyzing trends in the industry via research communications and conference programs. Clients receive research papers, Callan Insights and DC Insights (an electronic news service that reports developments within the institutional investment arena), surveys, quarterly data, and other online updates, and clients can participate in our educational programs (conferences, webinars, and workshops). Clients also receive newsletters including the Capital Markets Review, Defined Contribution Observer, Private Market Trends, Real Assets Reporter, and Hedge Fund Monitor. The Institute offers summaries of our educational conferences/workshops and access to the on-line library of archived research.
- (b) Center for Investment Training: The Center for Investment Training, more commonly known as the "Callan College", offers one and one-half to two-day programs several times each year and also provides customized sessions. The "Callan College" is designed to provide investment fiduciaries and their advisers with basic-to-intermediate-level of instruction on prudent investment practices. The subjects discussed include fiduciary standards and responsibilities, capital market theory, asset allocation, the writing of investment policy statements, investment manager structure and search, and performance measurement and evaluation. Additional one-day "Callan College" programs on such subjects as defined contribution, real estate, hedge funds, and private markets are also periodically offered to fund sponsors, investment managers, and/or financial intermediaries.

#### **Item 5 – Fees and Compensation**

The fees for each of Callan's business lines are described below.

All Callan fees are negotiable and are paid in cash. A client may cancel an agreement for services with Callan at any time upon notice to Callan. If Callan is in the process of performing services for a client which the client does not want to have completed, then Callan will bill the client for the services performed to the date of cancellation.

On occasion, Callan may accept payment for the provision of its Fund Sponsor Consulting services from a directed brokerage account when such fund sponsor client directs its broker to send Callan a check to pay its client's bill. Callan has no soft dollar arrangements with any broker, and only accepts checks from brokers as payment for its hard dollar client fees. Other than payment of the invoice for client services, no compensation is received from the broker.

#### **(I) The Fund Sponsor Consulting Group (FSC)**

The fees for Fund Sponsor Consulting Services vary depending upon the type and complexity of the assignment with a fee range being between \$10,000 and \$900,000 per project service or suite of services (retainer) per year. The median fee is \$135,000. Fees for Fund Sponsor Consulting services may also be based on a percentage of assets on which we consult, which such percentage is negotiable depending on the services provided. All fund sponsor retainer clients subscribing to any services of Callan are provided Callan Institute services as part of the overall fees they pay Callan for so long as they remain clients. The fund sponsor "Callan College" registration fees, per session, range between \$1,175 and \$2,500 per person.

Fees are typically billed monthly or quarterly in arrears.

(II) The Independent Adviser Group (IAG)

IAG clients are independent consulting firms and financial intermediaries that access the IAG bundled consulting services, including the UMA platform described in Item 4(ii) above, to provide advisory services to their clients. Callan charges IAG clients an annual base fee which varies depending on the size and nature of the IAG client and the complexity of the client relationship. The base fees paid by most IAG clients currently range from \$30,000 to \$600,000, with some IAG clients paying more or less than this range based on their individual circumstances. Some IAG clients receive as part of the IAG bundled consulting services access to the Callan Institute.

Clients of an IAG client that elect to participate in the Callan UMA program pay an asset-based fee to the overlay manager of the UMA platform who, in turn, pays asset-based fees to Callan for program coordination, and sub-advisers whose investment strategies are utilized. Callan asset based fees for the UMA program are based on a tiered fee schedule that typically starts at 20 bp. In some instances, Callan will pay consulting fees to a qualified third-party that assists with the training of, and use by, independent investment advisors opening client accounts under the UMA program. Fees otherwise retained by Callan are reduced dollar-for-dollar by the consulting fees paid to the qualified third-party.

In addition to the annual base fee, Callan charges the following fees for its IAG services:

- (a) Project-based fees and/or suite of services (retainer) for customized consulting services start generally at \$30,000;
- (b) "Callan College" registration fees, per session, range from \$2,350 to \$2,500 per person.

A client of an IAG client allocating assets to the UMA platform is also responsible for paying separate fees to its independent consultant or financial intermediary, (the IAG client) who oversees such client's UMA platform investment, as well as for paying portfolio execution and custody charges. Callan does not participate in any such fees or charges.

Fees are typically billed quarterly in arrears.

(III) The Institutional Consulting Group (ICG)

Fees for Investment Management Organizations: The fees for research and analytical tools vary depending upon the type and complexity of the assignment, with a fee range being between \$3,000 and \$100,000 per project service, workshop, or suite of services (retainer) per year.

Callan Institute fees for investment manager clients of ICG range from \$47,000 to \$59,000 per organization per year (not per individual) dependent upon the complexity of the services selected by the client organization. The investment manager "Callan College" registration fees, per session, range between \$2,350 and \$3,000 per person.

Callan is committed to ensuring that it does not consider an investment manager's business relationship with Callan, or lack thereof, in performing evaluations for or making suggestions or recommendations to its other clients. Callan informs its investment manager clients of such policy at the start of the relationship and informs all clients of such policy on a routine basis. In addition to disclosing the existence of its business relationships with investment managers on request, Callan also discloses these manager relationships in annual mailings, as part of each applicable manager search, and in the quarterly performance evaluation reports provided to FSC clients.

Fees are typically billed quarterly in arrears.

(IV) The Trust Advisory Group (TAG)

- (1) Discretionary Services:
- (a) Private Trusts: TAG, and each sub-adviser, receives a quarterly fee in arrears from the assets of the Private Trusts which are accrued daily at an annual rate of 0.15% of the average daily net assets, in accordance with the organizational documents for the Private Trusts. Interests in a Private Trust are offered only by means of a private placement memorandum which describes a Private Trust's fees and expenses, the terms and conditions for subscriptions and redemptions, the investment objectives and policies, and other information. The private placement memorandum is made available only to qualified investors.
  - (b) Discretionary Consulting Services – Callan through TAG, receives a quarterly asset-based fee in arrears from the assets of the large family foundation and large corporate 401k plans for which it provides OCIO services. The fees range between 0.04% and 0.20% of total assets.
  - (c) Retirement Program Funds – Callan's fees range from 0.00% to 0.05% of the average daily net assets of each underlying fund, calculated daily. Fees are paid monthly in arrears.
- (2) Non-Discretionary Services: Callan receives asset-based fees from the assets of the Collective Funds and CIT which are accrued daily and paid quarterly in arrears. The fees range between 0.02% and 0.15% of total assets in the Collective Funds and CIT.

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

Callan does not charge performance-based fees.

#### **Item 7 – Types of Clients**

Callan's clients are fund sponsors, investment managers, investment consulting firms, financial intermediaries, high net worth individuals, and retirement plan sponsored mutual funds. The clients are typically responsible for investment funds that are large tax-exempt funds such as pension, profit sharing, thrift, trust, endowment, and foundation funds. The sponsors are private corporations, public governments, multi-employer groups, and non-profit organizations. The investment managers and financial intermediary clients are banks, insurance companies, and independent investment management firms.

Callan offers advice to its clients, including manager search services and/or performance reporting services, on mutual funds and collective investment funds, hedge fund partnerships, real estate partnerships, and private equity partnerships. With the exception of the Collective Funds and OCIO clients which may invest in mutual funds and private funds, and retirement plan sponsored mutual funds such as the Retirement Program Funds and the underlying Core Funds, Callan does not offer advice on specific securities of individual issuers such as stocks and bonds or other investment companies.

Callan does not and will not provide consulting advice to a Fund Sponsor Consulting client with respect to an investment of plan assets in either the Private Trusts or the Collective Funds. The reason for this restriction is the fact that Callan receives compensation from the assets of the Private Trusts and the Collective Funds. Under the Employee Retirement Income Security Act of 1974, as amended, it is not permissible for Callan, as an investment consultant, to provide consulting advice to a plan regarding an investment in the Private Trusts or Collective Funds while, at the same time, receiving compensation from the Private Trusts or Collective Funds.

Furthermore, Callan's Fund Sponsor Consulting clients cannot invest their plan assets in the Private Trusts or the Collective Funds unless they amend their consulting contract with Callan to acknowledge the potential conflict of interest created by the fact that Callan receives compensation from the assets of the Private Trusts or the Collective Funds. The consulting contract amendment formally precludes Callan from providing any consulting advice with respect

to plan assets invested in the Private Trusts or Collective Funds, either before, during, or after the investment is made.

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

All investing involves a risk of loss that clients should be prepared to bear. Securities investments can be affected by liquidity and volatility in the securities markets often driven by adverse changes in the national and international economies as well as by non-economic events. Investment managers generally attempt to identify securities and other assets believed to be undervalued and there are no assurances that such opportunities will be successfully recognized or acquired by investment managers engaged by Fund Sponsor Consulting clients or by TAG Private Trusts, Collective Funds or retirement plan funds. Callan cannot give any guarantee that it or any investment manager will achieve a client's investment objectives.

Callan will not have a role in the management or administration of any client's account and we will not have the opportunity to evaluate, in advance, the specific investments made by any investment managers except as described herein with respect to the retirement plan funds. As a result, the rates of return to clients will primarily depend upon the results of investment decisions of third-party managers. Callan shall not be responsible for reviewing the risks of individual securities nor the compliance/non-compliance of individual security holdings with a client's policy guidelines. Past performance by an investment manager is not a guaranty of future performance by that investment manager.

Callan works on an on-going basis with many of the largest institutional investors in the country in the development and maintenance of their risk management programs. Risk control is at the heart of Callan's investment consulting philosophy. In addition, ongoing research and fiduciary education are vital supporting elements of our risk control practice.

There are three key areas where we participate in the risk management process for our clients:

1. **Asset Allocation and Portfolio Implementation**

This includes: defining the performance and risk objectives for the client consistent with assets, liabilities, liquidity needs, risk tolerance, and any regulatory constraints, as well as developing investment guidelines and monitoring criteria for internal and external management.

Callan's proprietary asset allocation/liability modeling capabilities originated in the late 1970s and has been continually enhanced. These enhancements encompass Callan's state-of-the-art modeling technologies, as well as more than 35 years of experience in asset allocation modeling for major institutional investors. We maintain a dedicated Capital Markets Research Group that is responsible for conducting all asset/liability work.

This specialized team of economists, mathematicians, and actuaries is dedicated to research in the fields of asset allocation and strategic planning as well as the development of economic tools and statistical models that enable fund sponsors to predict the possible outcomes of their investment decisions. The group has developed a capital market projection model, a mean-variance optimization model, and an asset/liability Monte Carlo simulation model. In addition to this primary focus, the group conducts client specific research projects, including the examination of new asset classes and the development of appropriate due diligence documentation for the inclusion of these assets in a client portfolio. A frequent subject of analysis is how to structure investment portfolios including the use of active and passive management in each asset class. They also frequently evaluate the uses and opportunities inherent in areas such as global tactical asset allocation and currency overlay, hedging strategies to reduce funding risk in pension funds, asset/liability matching and many other client specific research analyses.

## 2. Monitoring, Evaluation and Reporting System

Development and on-going maintenance of a comprehensive monitoring and reporting system covering all aspects of total fund performance and investment risk is the second area in which Callan supports its clients' risk management processes. At a minimum this system provides: top-down analyses of the total fund's performance and risk characteristics relative to benchmark and peers; analysis at the asset class level of performance, risk, and portfolio characteristics relative to benchmarks and peers; analysis at the manager level of performance, risk, portfolio characteristics relative to benchmarks and peers.

Callan has provided performance evaluation services to its clients for over 40 years. We continually invest significant dollars in our information technology and are regularly updating our performance evaluation services. The result is that Callan's clients continue to receive what we believe are state-of-the-art, user-friendly performance analytics which represent the leading edge offered in our industry today. It is important to note that Callan maintains a proprietary database and reporting platform and is one of the few to do so in the industry. We feel this is a big differentiating factor in our capabilities as it gives us complete control over the design, quality, timeliness, and content of our reporting. In addition, it provides:

- Complete flexibility in peer group construction, choice of indices and custom index construction, choice of time periods, etc.
- Access to the historical performance holdings, and organizational detail on virtually every major investment management firm that has been marketed to institutional investors over the last 40 years.
- A built-in training ground for our associates which helps to develop the intellectual capital that comes with building and maintaining a complex institutional-grade performance reporting system.

Our performance evaluation process is a combination of qualitative and quantitative factors, and most importantly, is uniquely tailored to the client's needs. Callan's broad experience in dealing with a number of different clients and situations enables us to thoroughly evaluate the total fund performance as well as each manager's overall capabilities and performance including how that manager has met the client's specific needs.

In addition to return information, Callan reports on risk analysis, style analysis, characteristics analysis, organizational issues, product strategy changes, manager turnover, ownership changes, along with any other information pertinent to each individual manager. These reports provide the most comprehensive look at total fund and manager performance and are the basis for detailed discussions and action plans going forward.

Risk analysis at Callan is geared toward providing clients with a top-down view of a given portfolio's risk level (e.g. standard deviation, tracking error); whether the investor is being compensated for that risk (e.g. Sharpe ratio, Information ratio) and where that "risk" is coming from (e.g. tracking error, sector bets, security selection or concentration).

From a statistical perspective, Callan's performance reports provide a host of risk, return and attribution diagnostics to aid with the on-going evaluation of investment managers. Our customized reports are designed to include the most relevant information in an easy-to-understand format. The risk and return measures are provided to analyze the variation or risk of a manager's return pattern. Alpha, beta, residual risk and standard deviation are compared to appropriate indices and style groups. We also regularly evaluate other statistics such as Sharpe ratio, Information ratio, Treynor ratio, and Excess Return ratio. Risk, like performance, is a relative statistic.

Along with appropriate risk and return statistics, our performance reports present portfolio characteristics in a quarterly snapshot as well as in a histogram format to help detect any change in style or approach by an investment manager. This holdings-driven view of current portfolio structure is an extremely useful current view of forward-looking risks and active bets embedded in the portfolio. We also present attribution analysis to decipher precise sources of positive alpha or potential underperformance.

3. Operational Best Practices

Callan's assessment of a client's internal investment operations best-practices and guidelines is the third area of involvement in assessing risk. This includes defining the governance structure for the client's fund including the allocation of decision-making authority and oversight; reviewing all aspects of the client's public markets operational platform including trading, custody, securities lending, foreign exchange, use of derivatives and/or leverage, fees and expenses; reviewing all aspects of the client's alternative investments portfolio including liquidity terms, fees and expenses, cash management and forecasting; developing an annual pacing plan to insure proper diversification across time and strategies.

**Item 9 – Disciplinary Information**

A regulatory action was initiated by the SEC in the form of a Cease and Desist Sanction (SF-2826-A) on September 19, 2007. The matter concerns some of Callan's past disclosures describing its 1998 sale of its broker affiliate, Alpha Management, to a subsidiary of The Bank of New York (BNY). Under the terms of that transaction, Callan was to receive a series of annual payments from BNY over the period from 1998 through 2006. An amount equal to 92% of each annual payment was dependent on Callan essentially remaining in the consulting business and unrelated to BNY's brokerage revenue. The final 8% of each payment was contingent on BNY's aggregate brokerage commissions attributable to Callan clients exceeding 75% of their 1998 levels (the fiscal year prior to the transaction). As a practical matter, BNY exceeded this hurdle each year, and by 2000 had even stopped bothering with the calculation. As a result, Callan received the same annual payment throughout the life of the transaction.

Over the period from 1998 through 2006, Callan routinely disclosed the existence of this transaction to all of its clients, including in its Form ADV Part II. In those disclosures, these payments were described simply as "fixed payments" which reflected their practical reality. In 2005, Callan was informed by the SEC staff that they felt that this disclosure was incomplete. At that time, Callan voluntarily amended its Form ADV Part II to provide more detail on the structure of the payments and sent it out to its clients. In January of 2007, the transaction between BNY and Callan was concluded and Callan no longer received the payments that were the subject of the disclosure.

The status of this order is final. The matter was resolved on September 19, 2007 via a cease and desist order.

**Item 10 – Other Financial Industry Activities and Affiliations**

Callan does offer business consulting to its Institutional Consulting Group clients. A description of such services is contained under Item 4(III) above.

Callan provides research and educational services to, and receives compensation for those services from, investment managers some of whom are evaluated by Callan or recommended by Callan to its other clients. Callan recognizes that there is a potential conflict between Callan's interest in receiving compensation from investment managers and Callan's obligation to provide objective advice to clients who use those managers. Callan has adopted certain policies and practices designed to prevent such conflicts, including the policies set forth in its Code of Ethical Responsibility, disclosure policies, roles of its oversight committees, separation of the areas of business, including separate personnel, revenue streams, and compensation arrangements.

Among other policies, Callan is committed to ensure that it does not consider an investment manager's business relationship with Callan, or lack thereof, in performing evaluations for or making suggestions or recommendations to its other clients. Callan informs its investment manager clients of such policy at the start of the relationship and informs all clients of such on a routine basis. In addition to disclosing the existence of its business relationships with investment managers on request, Callan also discloses these manager relationships in annual mailings, as part of each manager search, and in the quarterly performance evaluation reports provided to fund sponsor clients. Fund sponsor clients can also request specific information regarding the fees paid to Callan by the managers employed by their fund. Per company policy, information requests regarding fees are handled by Callan's Compliance Department.

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

In order to avoid and mitigate possible conflicts of interest presented by the firm's business mix, Callan has maintained a Code of Ethical Responsibility (the Code) since 1994. This Code also complies with Rule 204A-1 under the Investment Advisers Act of 1940, as amended. Among other things, the Code sets forth the general standards of conduct that Callan requires of its employees, as well as specific policies reasonably designed to protect the objectivity and integrity of the advice Callan renders to its clients. The topics addressed in the Code include the use and safeguarding of confidential information; the prevention of insider trading; outside business relationships of Callan employees; gifts, business entertainment and political and charitable contributions; and communications with outside parties. The Code pays special attention to the fact that Callan sells products and services to investment managers and is committed to ensuring that these relationships do not affect the outcome or process by which any of Callan's services are conducted, including manager searches and performance evaluations. Callan has adopted policies and procedures reasonably designed to prevent Callan's receipt of fees from investment managers from influencing the Fund Sponsor Consulting and Independent Adviser Group services it conducts.

The Code also contains restrictions on the personal trading activities of certain Callan employees and requires those employees to report their personal trades to the firm's CCO in accordance with applicable regulatory requirements.

Callan's Code is available on its website, [www.callan.com](http://www.callan.com). In addition, Callan will provide a copy of the Code to any client or prospective client upon request.

Callan provides research and educational services to, and receives compensation for those services from, investment managers some of whom are evaluated by Callan or recommended by Callan to its other clients. Callan recognizes that there is a potential conflict between Callan's interest in receiving compensation from investment managers and Callan's obligation to provide objective advice to clients who use those managers. Callan has adopted certain policies and practices designed to prevent such conflicts, including the policies set forth in its Code of Ethical Responsibility (described above), disclosure policies, roles of its oversight committees, separation of the areas of business, including separate personnel, revenue streams, and compensation arrangements.

Among other policies, Callan is committed to ensure that it does not consider an investment manager's business relationship with Callan, or lack thereof, in performing evaluations for or making suggestions or recommendations to its other clients. Callan informs its investment manager clients of such policy at the start of the relationship and informs all clients of such on a routine basis. In addition to disclosing the existence of its business relationships with investment managers on request, Callan also discloses these manager relationships in annual mailings, as part of each applicable manager search, and in the quarterly performance evaluation reports provided to fund sponsor clients. Fund sponsor clients can also request specific information



regarding the fees, if any, paid to Callan by the managers employed by their fund. Per Callan policy, information requests regarding fees are handled by Callan's Compliance Department.

Callan does not generally recommend the purchase or sale of specific securities to its Fund Sponsor Consulting, Institutional Consulting or Independent Adviser Group clients. However, from time to time there may be situations in which Callan includes in the hedge fund searches it performs for Fund Sponsor and Independent Adviser Group clients one or more hedge funds in which a related party, Sharpe 4 Partners, also invests. On rare occasions, Callan affirmatively recommends that a Fund Sponsor Consulting client purchase or sell such a hedge fund. Gregory C. Allen, President & Director of Research, has a controlling interest in Sharpe 4 Partners, a hedge fund that is managed by Sharpe 4 Capital Management, LLC ("Sharpe 4"). Sharpe 4 is not controlled by Callan.

Callan does not and will not provide consulting advice to a Fund Sponsor Consulting client with respect to an investment of plan assets in either the Private Trusts or the Collective Funds. The reason for this restriction is the fact that Callan receives compensation from the assets of the Private Trusts and the Collective Funds. Under the Employee Retirement Income Security Act of 1974, as amended, it is not permissible for Callan, as an investment consultant, to provide consulting advice to a plan regarding an investment in the Private Trusts or Collective Funds while, at the same time, receiving compensation from the Private Trusts or Collective Funds.

Furthermore, Callan's Fund Sponsor Consulting clients cannot invest their plan assets in the Private Trusts or the Collective Funds unless they amend their consulting contract with Callan to acknowledge the potential conflict of interest created by the fact that Callan receives compensation from the assets of the Private Trusts or the Collective Funds. The consulting contract amendment formally precludes Callan from providing any consulting advice with respect to plan assets invested in the Private Trusts or Collective Funds, either before, during, or after the investment is made.

#### **Item 12 – Brokerage Practices**

##### (I – III) FSC, IAG, ICG Groups

With regard to its Fund Sponsor Consulting, Institutional Consulting or Independent Adviser Group clients, Callan does not typically select broker-dealers for client transactions nor determine the reasonableness of their compensation (e.g., commissions).

Callan will, upon request, accept engagement to assist its Fund Sponsor Consulting clients in conducting searches for such providers as securities lending, transition management or commission recapture programs and, as such, will identify brokers to its clients as part of these searches.

On occasion, Callan may receive and accept payment for the provision of its Fund Sponsor Consulting services from a directed brokerage account when such fund sponsor client directs its broker to send Callan a check to pay its client's bill. Callan has no soft dollar arrangements with any broker, and only accepts checks from brokers as payment for its hard dollar client fees. Other than payment of the invoice for client services, no compensation is received from the broker.

##### (IV) TAG

With regard to the Private Trusts, the day-to-day investment decisions regarding the acquisition, disposition and voting of portfolio investments are made by the sub-advisers Callan selects to manage the Private Trusts. Callan does, however, have the authority to select one or more broker-dealers to perform transition management services for the Private Trusts in connection with the engagement or termination of sub-advisers. In addition to selecting the transition management broker-dealers, Callan has the authority to negotiate the commission rates paid to those broker-dealers. In selecting the transition management broker-dealers for the Private

Trusts, Callan considers the quality of execution and cost, but does not consider supplemental research, market or statistical information, or ancillary services provided by the broker-dealers.

Information regarding the sub-advisers' brokerage placement practices is set forth in the Private Trusts' private placement memorandum.

With respect to the Retirement Program clients, the underlying Core Funds and the TAG Discretionary Consulting Services clients, including OCIO engagements, Callan is authorized to select, and to delegate to investment managers engaged by Callan for these clients the authority to select reputable broker-dealers in order to purchase, sell and otherwise trade in securities. In selecting broker-dealers for these clients, Callan periodically reviews and evaluates with the investment managers the services provided by broker-dealers, the quality and capability of execution, commission rates and overall brokerage relationships.

### **Item 13 – Review of Accounts**

With respect to the TAG accounts, the monitoring and reporting procedures are the same:

- (1) **Daily Reviews:** Employees of TAG typically receive and evaluate daily reports on the activities of the Private Trusts, the Retirement Program Client Funds, and the Collective Funds. This group includes the two managers of Investment Operations. The daily information that is processed includes: net asset values, returns, returns for relevant indices, fee accrual information, allocations between underlying funds and sub-advisers, as well as security level information as needed.
- (2) **Monthly Reviews:** On a monthly basis, TAG reviews a more comprehensive set of reports on the Private Trusts, the Retirement Program Client Funds, and the Collective Funds. In addition to the information in the daily reports, this includes: securities lending activity, trading-cost analysis, return comparisons versus peer groups and benchmarks, and a rebalancing report.

Investors in the Private Trusts receive monthly reports detailing their account balance, and return information for the Private Trusts, the underlying sub-advisers, comparative indices, and peer groups. Investors also receive a quarterly report with detailed performance and portfolio characteristic information. At their election, investors can also receive daily net asset value information, as well as security level holdings information for the Private Trusts and its sub-advisers.

- (3) **Periodic Reviews:** TAG senior management and the investment committee for each account review on a periodic basis and more frequently when warranted by market or account conditions, the Discretionary Consulting Services accounts. Written reports detailing account balances and changes in value from the prior quarter, comparing the performance of investment options to relevant benchmarks and/or peer groups, analyzing risks and portfolio characteristics are provided to these clients on a calendar quarter basis.

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

Callan may compensate persons, i.e., individuals or entities, for the referral of advisory clients to the firm, provided that appropriate disclosures and regulatory requirements are met. At the present time, Callan has one agreement under which a solicitor is to be paid compensation for introducing new clients to Callan for the Callan GlidePath® Collective Investment Trusts. The compensation to be paid under this agreement was negotiated between Callan and the solicitor. The compensation arrangement is (i) disclosed to the client at the time of the solicitation or referral and (ii) will be paid out of Callan general funds and out of the total advisory fees received by Callan from the Callan GlidePath® Collective Investment Trusts from the solicited client. No solicited client will be charged an additional fee as a result of any referral or solicitor arrangements. Compensation includes fixed quarterly fees and ongoing payments based on a

negotiated percentage of the investment advisory asset flows from the solicited client into the Callan GlidePath® Collective Investment Trusts for up to three years.

In some instances, Callan will pay consulting fees to a qualified third-party that assists with the training of, and use by, independent investment advisors opening client accounts under the UMA program. Fees otherwise retained by Callan are reduced dollar-for-dollar by the consulting fees paid to the qualified third-party.

#### **Item 15 – Custody**

Because of authority given to us by certain advisory clients, Callan is deemed to have custody of certain advisory client funds, securities, or assets held in accounts with qualified custodians. As an adviser with custody, Callan's general policy is to ensure that we maintain clients' funds and securities with qualified custodians, who in turn, provide at least quarterly account statements directly to our clients or a selected independent representative. Clients should carefully review the statements received from their qualified custodians.

#### **Item 16 – Investment Discretion**

Callan generally does not exercise investment discretion with regard to its Fund Sponsor Consulting, Institutional Consulting or Independent Adviser Group clients. Customized procedures would be developed on a client by client basis as the need arises.

With regard to the Private Trusts, the day-to-day investment decisions regarding the acquisition, disposition and voting of portfolio investments are made by the sub-advisers Callan selects to manage the Private Trusts.

With regard to the Discretionary Consulting Services, Callan through TAG, acts as an OCIO with discretion over, and in some cases, implementation responsibility for, a wide range of decisions including asset allocation, portfolio structure, manager and fund selection, manager and fund termination, and rebalancing. Callan also provides advice as to the purchase and sale of mutual fund shares and interests in private funds and separate accounts for these clients.

In connection with the monitoring and maintenance of sub-advisers' compliance with their applicable investment policies and guidelines, should the need arise, Callan has discretionary authority to direct the sale of securities to maintain alignment with such policies and guidelines.

#### **Item 17 – Voting Client Securities**

As a matter of general policy, Callan does not have nor accept authority to vote proxies.

However, under the TAG Discretionary Consulting Services agreements, Callan has been delegated authority, and, with rare exception, re-delegates to investment advisers engaged for the account to vote proxies.

With respect to the Retirement Program Funds and the underlying Core Funds, Callan has been delegated authority to vote proxies on behalf of the Fund and, in turn, with respect to the Core Funds, has delegated this authority to the sub-advisers engaged by Callan to provide portfolio management services to the Core Funds. Proxies are voted in accordance with each respective sub-adviser's proxy voting policies and procedures, which are described in the Retirement Program Funds' Statement of Additional Information, a copy of which can be obtained by contacting Callan.

#### **Item 18 – Financial Information**

Callan is not required to include a balance sheet of our most recent fiscal year.

Callan does not believe it has any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.