



## **PART 2 OF FORM ADV – BROCHURE**

**39520 Woodward Avenue, Suite 200  
Bloomfield Hills, Michigan 48304  
(248) 644-3030**

**[www.diversifiedportfolios.net](http://www.diversifiedportfolios.net)**

**February 27, 2017**

This brochure provides you information about the qualifications and business practices of Diversified Portfolios, Inc. If you have any questions about the contents of this brochure, please contact us at (248) 644-3030. 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.

We are a registered investment adviser. Registration of an adviser does not imply any level of skill or training.

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

## **ITEM 2: SUMMARY OF MATERIAL CHANGES**

In the past, we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to the amended SEC Rules, we will provide you with a summary of material changes detailing any material changes that we make to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary. We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. We did not have any specific material changes to our Brochure since the last annual update of our Brochure dated February 9, 2016.

You may request a free copy of our Brochure by contacting Robert E. Toal, our Chief Compliance Officer, at 248-644-3030 or [rtoal@diversifiedportfolios.net](mailto:rtoal@diversifiedportfolios.net).

Additional information about us is also available via the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website also provides information about any persons affiliated with us who are registered, or are required to be registered, as one of our investment adviser representatives of our firm.

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## **ITEM 4: ADVISORY BUSINESS**

### **Our Owners and Principals**

We are a Michigan corporation formed in 1993. We are required to disclose the persons owning twenty-five percent (25%) or more of our firm's common stock. Robert Toal, Ronald Yolles and Thomas Post, each a Partner of our firm, each own more than twenty-five percent (25%) of our firm's common stock.

### **Our Advisory Services**

#### ***Investment Management for Individual Accounts***

We offer personalized discretionary investment management services to you based on your investment goals, financial objectives and risk tolerance. If you engage us to provide you with investment management services, we will work with you to establish an investment policy statement that is reasonable and documents your investment objectives and expectations. We use this information to build a portfolio of investments for you based on the principles of broad diversification and a long-term allocation of assets among equities, fixed income and cash, consistent with your investment policy statement. We choose specific investments within your portfolio keeping minimization of transaction costs as a key goal. Once the portfolio is established, we monitor and reconcile your account with your custodian on a regular basis.

We perform our investment management service for you pursuant to the terms and conditions we establish in our written investment advisory agreement that we both sign at the beginning of our relationship. As described in further detail below in the "ITEM 16: INVESTMENT DISCRETION" section beginning on page 11, we manage your accounts on a discretionary basis, which means that we determine the securities to buy and sell for your account without obtaining your specific consent prior to each transaction. However, you may place reasonable restrictions on our discretionary authority or place limitations on the types of investments for your account in writing.

#### ***Investment Management for Qualified Plans***

We also provide investment management services to qualified retirement plans which are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). As part of our services to qualified plans, we may act as a fiduciary as defined in Sections 3(21)(A) and 3(38) of ERISA. As a 3(38) investment manager, the plan fiduciary gives us discretionary authority to manage the plan's assets. This means that the plan fiduciary shifts its fiduciary responsibility to us for the selection of the plan's investments. As a 3(38) advisor, you give us discretionary authority to manage your plan's assets. This means that you shift your fiduciary responsibility to us for the selection of your investments. If you engage us as a 3(21) advisor, we will make recommendations, but it is ultimately up to you, as the plan fiduciary, to decide whether and how to act. As a 3(21) advisor, we will not have discretion to invest and reinvest

your assets without your prior consent. Thus, as a 3(21) advisor, we will share responsibility for the selection of investments.

For qualified plan clients, we assist you with creating and maintaining your investment policy statement. Your investment policy statement may place restrictions on the types of investments the plan assets may invest in. We may adjust the asset allocation to ensure that the investment mix reflects the objectives of the chosen strategy. We continually monitor the performance of all investment options.

### ***Additional Services***

In conjunction with our investment management services, we may also advise you on issues related to your retirement planning or wealth management. To implement our advice, we may also recommend that you work with other professionals, such as attorneys or accountants, or utilize various financial products, such as insurance or securities, to implement our recommendations and to obtain your financial goals.

### **Assets Under Management**

We manage your assets on a discretionary basis. As of December 31, 2016, we had \$710,680,031 in client assets managed on a discretionary basis and \$31,037,120 on a non-discretionary basis.

## **ITEM 5: FEES AND COMPENSATION**

### **Investment Management Fee Schedule**

Although our fees for our services may be negotiated under certain circumstances, our standard fee schedule for all investment management services is as follows:

Market Value of Assets	Annual Fee
For the first \$1,000,000	0.90%
For the next \$1,000,000	0.75%
For the next \$2,000,000	0.60%
Any amount over \$4,000,000	0.50%

We establish with you the specific manner in which we charge our fees in the written investment advisory agreement signed with us prior to beginning our relationship. We provide the additional services named above as part of our investment management service at no additional cost to you.

Generally, we bill our fees in arrears on a quarterly basis based on the market value of your assets under our management, including cash and cash equivalents, on the last business day

of the preceding quarter. We prorate our fee for accounts initiated or terminated during a calendar quarter, in the event that our engagement does not begin or end at the end of a calendar quarter. We also prorate our management fees for each capital contribution and withdrawal greater than \$30,000 made during the applicable calendar quarter.

We reserve the right to negotiate our fee, at our sole discretion. Negotiated fees may be higher or lower than those described in this Brochure. In these circumstances, we will establish the negotiated fee schedule in your investment advisory agreement. As set forth in the “ITEM 7: TYPES OF CLIENTS” section beginning on page 4, we generally require you to have a minimum of \$1,000,000 in assets to open an account for investment advisory services.

Our fees do not include brokerage commissions, transaction fees, and other related costs and expenses incurred in connection with providing investment advisory services to you. Mutual funds and ETFs also charge internal management fees, which are disclosed in the fund’s prospectus. Such charges, fees and commissions are in addition to our fee. For information that we consider when recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions) please see the “ITEM 12: BROKERAGE PRACTICES” section beginning on page 6.

### **Termination of Services**

Either of us may terminate the agreement at any time by providing the other party with written notice. Upon termination, you will remain obligated for the payment of any services performed for your account prior to termination. Also, upon termination of any account, we will charge any earned fees or refund any prepaid, unearned fees as appropriate based on your billing method chosen. You are responsible for any cost incurred in transferring assets from your account to a different account. After termination, we will have no further duties or obligations to you.

### **Direct Billing to Your Custodian**

Unless otherwise agreed to by us in writing, you authorize us in the investment advisory agreement to bill our fees to the custodian of your account and grant the custodian permission to directly debit our fees from your accounts. If you provide us such authorization, you will receive periodic statements from your custodian showing each fee deduction from your account. You may withdraw this authorization for direct billing of these fees at any time by notifying us or your custodian in writing.

## **ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

We do not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of your assets).

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

We provide investment management services to individuals, high net-worth individuals, pension and profit-sharing plans, foundations, endowments and trusts.

We impose certain conditions for opening or maintaining an account. Generally, we require a minimum of \$1,000,000 of cash and/or securities to open an account for investment management services. We may waive this requirement if, for example, you have additional or related accounts that together exceed the minimum requirements.

## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **Methods of Analysis**

We utilize Dimensional mutual funds in client portfolios. Dimensional mutual funds follow a passive investment philosophy with low turnover. We receive data and analysis from economists and other investment professionals affiliated with Dimensional Fund Advisors (“DFA”), an unaffiliated registered investment adviser and adviser to the Dimensional mutual funds. We also receive proprietary software from DFA. We utilize the software in the formation of asset allocation strategies, to analyze investments for your account and production of performance reports. We believe these resources for information are reliable and regularly depend on these resources for making our investment decisions; however, we do not independently verify for the accuracy or completeness of this information.

### **Investment Strategies**

We use a variety of investment strategies depending on your circumstances, financial objectives and needs. Investments made in portfolios are predominantly long term, and the frequency of trading is limited in order to keep costs low and taxable gains to a minimum. We use two software programs, PortfolioCenter® and Total Rebalance Expert (“TRX”), to help us analyze and rebalance client portfolios. All accounts are reviewed by one of our three principals and periodically trades are needed to rebalance portfolios or to generate cash for client spending requirements. A list of required trades is prepared and entered into the trading platform, which allows for electronic submission of trades. Before we submit trades we review the trades again for accuracy. We then place the trade file electronically and keep all required records. The following day, our trading records are reconciled with the custodian and any discrepancy is corrected immediately. We maintain an electronic record of all trades both by date and on a per client basis.

### **Types of Investments and Risk of Loss**

We develop a long term asset allocation strategy consistent with your investment goals, objectives and risk tolerance. In implementing this long term strategy, we predominantly use low

cost, no-load open-end mutual funds and exchange traded funds (ETFs). We may very occasionally use individual securities to implement a strategy.

We offer advice about a wide variety of investment types, including mutual funds, index funds and ETFs, each having different types and levels of risk. We will discuss these risks with you in determining the investment objectives that will guide our investment advice for your account. We will explain and answer any questions you have about these kinds of investments, which present special considerations such as the following.

Investing in securities involves risk of loss that you should be prepared to bear. Obtaining higher rates of return on investments typically entails accepting higher levels of risk. We work with you to attempt to identify the balance of risks and rewards that is appropriate and comfortable for you. However, it is still your responsibility to ask questions if you do not fully understand the risks associated with any investment or investment strategy.

Also, while we strive to render our best judgment on your behalf, many economic and market variables beyond our control can affect the performance of your investments and we cannot assure you that your investments will be profitable or assure you that no losses will occur in your investment portfolio. Past performance is one relatively important consideration with respect to any investment or investment advisor, but it is not a predictor of future performance.

Many mutual funds and ETFs typically charge their shareholders various advisory fees and expenses associated with the establishment and operation of the funds. These fees will generally include a management fee, shareholder servicing, other fund expenses, and sometimes a distribution fee.

Consequently, for any type of fund investment, it is important for you to understand that you are directly and indirectly paying two levels of advisory fees and expenses: one layer of fees at the fund level and one layer of advisory fees and expenses to us. However, we only recommend and invest in funds that are “no load” funds, which are funds in which the investor does not pay a sales fee or commission. Generally speaking, you may purchase many mutual funds directly, without using our services and without incurring our advisory fees. However, we recommend a number of funds and have access to institutional shares that are not available to the general public.

#### **ITEM 9: DISCIPLINARY INFORMATION**

As a registered investment adviser, we must inform you of all material facts regarding any legal or disciplinary events that would be material to your evaluation of our firm or the integrity of our management. We have no legal or disciplinary events to disclose.



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

As a registered investment adviser, we must disclose information regarding our business activities, other than giving investment advice, our other activities in the financial industry, and any arrangements with related persons that are material to you or our advisory business. We are also required to disclose if we receive cash or other economic benefits when recommending or selecting third-party investment advisers in connection with advising you. We do not utilize or select other investment advisers to manage your assets and have no applicable information to disclose.

## **ITEM 11: CODE OF ETHICS**

We have adopted a Code of Ethics for all supervised persons of the firm describing our high standard of business conduct and fiduciary duty to our clients. Our Code includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All of our supervised persons must acknowledge the terms of our Code annually, or as amended. Our employees and persons associated with us are required to follow our Code.

We or our employees may, from time to time, purchase investments that we recommend to clients. Subject to our Code and applicable laws, all of our officers, directors, employees and affiliates may trade for their own accounts in securities which we recommend to or purchase for our clients. Our Code is designed to assure that our employees' personal securities transactions, activities and interests will not interfere with (i) making decisions in your best interest and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Nonetheless, because our Code, in some circumstances, permits employees to invest in the same securities as clients, there is a possibility that employees might benefit from a client's market activity in a security held by an employee. We continually monitor employee trading under our Code to prevent conflicts of interest between our clients and us. All trades and holdings of the Chief Compliance Officer (CCO) are reviewed by Thomas C. Post, co-owner.

You may request a copy of our Code by contacting Robert E. Toal, our Chief Compliance Officer, at 248-644-3030 or [rtoal@diversifiedportfolios.net](mailto:rtoal@diversifiedportfolios.net).

## **ITEM 12: BROKERAGE PRACTICES**

### **Directed Brokerage & Soft Dollars**

We recommend brokerage services provided by Charles Schwab & Co., Inc., ("Schwab") and TD Ameritrade Institutional, a division of TD Ameritrade, Inc., ("TD Ameritrade"), registered broker-dealers for custodian and brokerage services. Generally, if you choose Schwab or TD Ameritrade as your custodian they do not charge your accounts a separate

custodial fee, but instead charge commissions and other transaction-related fees for securities trades that are executed through them or that settle into your accounts custodied with them.

We have evaluated each of these brokers and have determined they offer our clients a variety of services, financial stability and competitive commission rates. We are independently owned and operated and are not affiliated with either Schwab or TD Ameritrade and we do not receive remuneration from any broker including Schwab or TD Ameritrade. In recommending these brokers, we considered our confidence in the firms, competitive rates for transactions, trade execution, availability of no-load, no transaction fee mutual funds, and other investments that are otherwise generally available only to institutional investors or to accounts with a significantly higher minimum initial investment, website features, and their custodial services. Not all independent investment advisors recommend that their clients use a particular broker.

We have not and do not intend to enter into any contractual third-party soft-dollar arrangements, such as committing to place a specific level of brokerage with a specific firm in return for which the brokerage firm will pay for various research related products or services for us that are generally available for cash purchase.

However, these brokers offer us other products and services that assist us in managing and administering clients' accounts, but may not directly benefit your accounts. We may use many of these products and services to service all or some substantial number of our client accounts. These products and services include software and other technology that (1) provide us access to client account data, such as trade confirmations and account statements; (2) facilitate trade execution; (3) provide research, pricing and other market data; (4) facilitate payment of our fees from our clients' accounts; and (5) assist with back-office functions, recordkeeping and client reporting.

As a result of these additional services, you may pay commissions in excess of those which the broker, or another broker, may charge for transactional services alone. We, however, must determine in good faith that the amount of any commission paid is reasonable in relation to the value of the brokerage and research services provided, viewed in terms either of a particular transaction or our overall responsibilities with respect to our discretionary accounts. We must also determine that any services we receive provide lawful and appropriate assistance in our investment decision-making responsibilities. We use the research and other services provided by Schwab and TD Ameritrade for the benefit of all clients.

Unless directed otherwise, we seek to negotiate commissions, mark-ups, and other brokerage fees to ensure a reasonable rate based on multiple factors including execution prices which we review annually to determine their reasonableness. As part of our fiduciary duty to clients, we endeavor at all times to put the interests of our clients first. You should be aware that the receipt of economic benefits by us or our personnel in and of itself creates a potential conflict of interest and may indirectly influence our choice to recommend these brokers for custody and brokerage services.

### **Dimensional Fund Advisors and Vanguard Group, Inc.**

As stated under ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS, beginning on page 4, we utilize resources made available to us through DFA, to analyze investments for your account such as historical market analysis, and risk/return analysis. DFA also provides us, and other advisers in its network, with education and analytics tools, practice management support, and other resources. These tools are made available to us because we are considered an approved adviser on the DFA platform. While we are not required to commit any specific level of services to participate on the DFA platform, these services are not available to financial advisors that have less than \$20 million of their clients' assets on the DFA platform.

In addition, we may utilize tools made available through the Vanguard Group, Inc. ("Vanguard") to evaluate your portfolio and holdings. Vanguard also makes available general educational material that we may send to our clients. While there is no direct link between our participation with Vanguard and the investment advice we give to you and our other clients, as stated above, we do receive some benefits through our participation in the program that are typically not available. While receiving materials from DFA and Vanguard may cause a conflict of interest, we mitigate this risk by evaluating and treating the available resources in the same way as the resources received from Schwab and TD Ameritrade.

### **Schwab Adviser Services™**

Schwab offers independent investment advisory firms like us support products and services, such as institutional trading and custodial services, through their program Schwab Adviser Services™. To receive these services we must maintain a total of at least \$10 million of our clients' assets in accounts at Schwab. These services are generally available to independent investment advisors on an unsolicited basis, at no charge, so long as we maintain a total of at least \$10 million of our clients' assets in accounts at Schwab. As a result, these services are contingent upon us committing a specific amount of business, assets in custody, to Schwab.

Schwab also offers other services intended to help us manage and further develop our business enterprise. These services may include compliance, legal and business consulting, publications and conferences on practice management and business succession and access to employee benefits providers, human capital consultants and insurance providers. Schwab may also provide other benefits to us, such as educational events or occasional business entertainment of our personnel.

### **TD Ameritrade Institutional Program**

There is no direct link between our participation with TD Ameritrade and the investment advice we give to you and our other clients, although, as stated above, we receive benefits through our participation in the program that are typically not available to TD Ameritrade retail

investors. The benefits received by us or our personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade.

### **Aggregation of Orders**

Investment advisers may aggregate the purchase or sale of securities for various client accounts for their administrative convenience and, in some transactions, to obtain better execution for the aggregated order than might be achieved by processing each of the transactions separately. We offer personalized investment management services and do not aggregate trades.

### **Trade Error Policy**

We have the responsibility to process trade orders correctly, promptly and ensure the best interests of our clients are served. A trade made in error is one made mistakenly or unintentionally. Our policy is to seek to identify and correct any errors as promptly as possible without disadvantaging the client or benefiting us. In the event an error is made, of whatever nature, in the trading of a client account, we will take steps to correct the error as soon as practicable. If we are responsible for a trade error that results in a loss in the client's account, we would normally make a trade to reverse the error immediately upon discovery of the error. However, if this is not allowed, e.g., where the "wash sale" rules of the Internal Revenue Code prevent immediate reversal of an error, then we place a corrective trade as soon as allowable. Generally, if related trade errors result in both gains and losses in the client's account, they may be netted. Our primary custodians are Schwab and TD Ameritrade; their policies differ on the treatment of trade error corrections.

**Trade Error Losses** - If a trade error occurs at Schwab or TD Ameritrade and it results in a loss in the client's account, the client's account is reimbursed for the entire amount of the loss as soon as practical after the discovery of the error. In the case of Schwab, if the loss is greater than \$100 we are invoiced by Schwab and will pay for the loss. If the loss is less than \$100 Schwab will absorb it to reduce its administrative time and expense. In the case of TD Ameritrade all losses are charged to our account.

**Trade Error Gains** - If a trade error at Schwab results in a gain less than \$100, Schwab will retain the gain to reduce its administrative time and expense. If a trade error results in a gain of more than \$100, the gain will remain in the client's account, unless the same error involved other client account(s) that should have received the gain or it is not permissible for the client to retain the gain. If the gain does not remain in the client's account, Schwab will donate the amount of any gain of \$100 or over to charity. If a trade error results in a gain at TD Ameritrade, TD Ameritrade will automatically sweep the gain from our trade error account to a designated TD Ameritrade error account and then donate the balance of the TD Ameritrade error account to charity. In all cases, where a trading error results in a gain, we will not be given the benefit of the net profit. We do maintain appropriate records for all trade errors. Regardless of the nature of the error, if a trade error occurs in your account, you will be reimbursed any and

all costs that may result from the errant trade. It is our intention that you should not be harmed from trades erroneously made on your behalf.

### **ITEM 13: REVIEW OF ACCOUNTS**

We review each account at least quarterly to evaluate and ensure the conformity of the portfolio with your investment objectives. Other factors may trigger additional reviews, such as substantial changes in the market price of stocks and bonds, changes in your objectives or portfolio changes that would impact all accounts. All three of our principals conduct reviews and review trades when reviewing accounts.

We provide you a report on a quarterly basis. Quarterly reports provide current market value and the time-weighted returns for all the relevant time periods covering the relationship. You will receive periodic reports, at least quarterly, from the custodian for your account, detailing the transactions within your account for that period. We urge you to review your statements carefully and compare such official custodial records to your statements that we may provide to you as described in “ITEM 15: CUSTODY”, beginning on page 11.

### **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

As described in “ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS and ITEM 12: BROKERAGE PRACTICES,” we receive research and other benefits from our relationships with Schwab, TD Ameritrade, DFA and Vanguard. In addition to the services named above, DFA, through a web-based service, provides referrals of clients to us based on the prospective client’s geographic location. DFA makes such referrals to many investment advisers that manage at least \$20 million in total assets and have used Dimensional funds for at least one year (based on data known to Dimensional). We do not compensate DFA for including our name on their web-based service.

We may engage solicitors to market our services. If we do so, you will receive a separate solicitor’s disclosure brochure describing our solicitation arrangements, the compensation we pay to the solicitor, and the terms of that relationship. You will also receive a copy of this Brochure. We pay the referral fee to the solicitor; you do not pay that fee. This policy is established pursuant to the rule 206(4)-3 under the Investment Advisors Act of 1940. Our referral fees are typically based on a percentage of assets that are placed under our management as a result of the referral.

Also, prior to joining our firm, Mr. Post arranged to pay a third party solicitor for referring clients to his former employer, Independence Advisors, Inc. Many of those referred clients became our clients, and under the arrangement, the solicitor may continue to receive a portion of the standard management fee for a period of time on such clients, which may vary on a case-by-case basis. The payment for a referral or solicitation does not influence the fee paid by our clients.

### **ITEM 15: CUSTODY**

You will receive statements from the broker-dealer, bank or other qualified custodian that holds and maintains your investment assets at least quarterly. We urge you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you, as described in the “ITEM 13: REVIEW OF ACCOUNTS” beginning on page 10. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

### **ITEM 16: INVESTMENT DISCRETION**

We generally receive discretionary authority from you at the outset of an advisory relationship. Discretionary authority grants us the ability to determine, without obtaining your specific consent, the securities to be bought or sold for your portfolio, and the amount of securities to be bought or sold. As described in more detail in “ITEM 4: ADVISORY BUSINESS” beginning on page 1, you may establish written investment guidelines and restrictions. In all cases, however, such discretion is to be exercised in a manner consistent with your stated investment objectives for the account and by considering the size of your account and your risk tolerance. When selecting securities and determining amounts, we observe any investment policies, limitations and restrictions you provide to us in writing. Also, you may sign an agreement with your custodian which generally includes a limited power of attorney granting us authority to direct and implement the investment and reinvestment of your assets within the account, but not direct the assets outside of the account.

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

As a matter of firm policy and practice, we will not be responsible for responding to proxies that are solicited with respect to annual or special meetings of shareholders of securities held in your account. You will arrange with your custodian to have proxy solicitation materials forwarded to you for response and voting. You will be solely responsible for voting proxies.

### **ITEM 18: FINANCIAL INFORMATION**

As a registered investment adviser, we are required to provide you with certain financial information or disclosures about our financial condition if we have financial commitments that impair our ability to meet contractual and fiduciary commitments to you. We have not been the subject of a bankruptcy proceeding and do not have any financial commitments that would impair our ability to meet any contractual or fiduciary commitments to you.