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## Form ADV, Part 2A Brochure

March 15, 2018

This brochure provides information about the qualifications and business practices of MAI Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at (216) 920-4800. 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.

Any reference to or use of the terms “registered investment adviser” or “registered,” does not imply that MAI Capital Management, LLC or any person associated with MAI Capital Management, LLC has achieved a certain level of skill or training.

Additional information about MAI Capital Management, LLC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



## ITEM 2 - MATERIAL CHANGES

**Revised March 15, 2018**

The purpose of this page is to inform you of material changes since the last annual update to this brochure. If you are receiving this brochure for the first time this section may not be relevant to you.

MAI Capital Management, LLC ("MAI," "we," "our," or "us") reviews and updates our brochure at least annually to confirm that it remains current. Below is a summary of the material changes made since the last annual update to the brochure. You can read more details on the items below in the text of the brochure (see the Table of Contents to find each section).

### **Material changes from MAI's brochure dated March 16, 2017:**

There were no material changes since the last update



## 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>5</b>
Description of Advisory Firm .....	5
Advisory Services Offered.....	5
Tailored Services and Client Imposed Restrictions.....	8
Wrap Fee Programs .....	8
Assets Under Management .....	9
<b>ITEM 5 - FEES AND COMPENSATION .....</b>	<b>9</b>
Fee Schedules .....	9
Other Fees and Expenses.....	12
Termination .....	13
<b>ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....</b>	<b>13</b>
<b>ITEM 7 - TYPES OF CLIENTS .....</b>	<b>13</b>
Types of Clients.....	13
Account Requirements .....	14
<b>ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....</b>	<b>15</b>
Methods of Analysis .....	15
General Investment Strategies .....	16
General Risk of Loss Statement .....	22
Specific Security Risks .....	22
Financial Planning .....	33
<b>ITEM 9 - DISCIPLINARY INFORMATION.....</b>	<b>34</b>
<b>ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.....</b>	<b>34</b>
Management Company .....	34
Adviser to Mutual Fund .....	34
Unaffiliated Advisors .....	34
Unaffiliated Insurance Agency.....	34
Registered Representative of Unaffiliated Broker-Dealer.....	35



Private Funds .....	35
Research Service Provider .....	37
<b>ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....</b>	<b>37</b>
Code of Ethics .....	37
Participation or Interest in Client Transactions .....	39
<b>ITEM 12 - BROKERAGE PRACTICES .....</b>	<b>41</b>
Factors Considered in Selecting Broker-Dealers for Client Transactions .....	41
Aggregation and Allocation of Transactions .....	47
<b>ITEM 13 - REVIEW OF ACCOUNTS .....</b>	<b>48</b>
<b>ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION .....</b>	<b>48</b>
<b>ITEM 15 - CUSTODY .....</b>	<b>50</b>
<b>ITEM 16 - INVESTMENT DISCRETION .....</b>	<b>50</b>
<b>ITEM 17 - VOTING CLIENT SECURITIES .....</b>	<b>51</b>
<b>ITEM 18 - FINANCIAL INFORMATION .....</b>	<b>52</b>

## ITEM 4 - ADVISORY BUSINESS

### Description of Advisory Firm

MAI Capital Management, LLC (“MAI,” “we,” “our,” or “us”) is a privately held independent investment advisor registered with the Securities and Exchange Commission and headquartered in Cleveland, Ohio. The firm was originally established as Investment Advisors International, Inc. (“IAI”) in 1973, and was an affiliate of International Management Group (“IMG”). In 2000, McCormack Advisors International, LLC (“McCormack”) was formed to succeed to IAI’s business as a joint venture between IAI and a major integrated financial institution. In 2002, the joint venture was dissolved and the firm returned to our roots as a provider of independent financial advice to clients. McCormack became fully independent of IMG in 2004. On January 31, 2007, BC Investment Partners, LLC (“BC”), also independently owned, acquired McCormack and renamed the merged firm MAI Wealth Advisors, LLC. On October 6, 2014 the firm was renamed MAI Capital Management, LLC. MAI’s principal owner is Richard James Buoncore. He owns 19% of the company through The Buoncore Group. On June 29, 2017, MAI converted from an Ohio Limited Liability Company to a Delaware Limited Liability Company. The name of MAI’s Registered Agent is The Corporate Trust Company with the registered office in the State of Delaware located at 1209 Orange Street, Wilmington, DE 19801.

### Advisory Services Offered

MAI is engaged in providing investment, wealth management and advisory services to institutions and high net worth individuals and families. MAI also offers several investment strategies including: the Dividend Strategy, the MAI Managed Volatility Strategy, the Diversified Core Strategy, the Diversified Dividend Strategy, the Core Strategy, the Exchange Traded Fund (ETF) Strategy, the MAI Energy Infrastructure & MLP Strategy, the Fixed Income – Tax Exempt Strategy, and the Fixed Income – Taxable Strategy.

In addition, MAI serves as the investment manager of the following investment funds (“the Funds”):

- MAI Wealth Private Equity Fund, L.P.
- MAI Managed Volatility Fund, L.P.
- MAI Opportunity Fund, L.P.
- MAI Capital Income and Growth Fund II, L.P.
- MAI Capital Income and Growth Fund III, L.P.
- MAI Diversified Real Estate Income Fund, L.P.
- MAI Capital Income and Growth Fund IV, L.P.
- MAI Diversified Real Estate Income Fund II, L.P.

MAI also serves as the investment advisor to the MAI Managed Volatility Fund (MAIPX/DIVPX), an open end mutual fund that is part of the Forum Family of Funds, and which is registered under the Investment Company Act of 1940. MAI is not affiliated with the Forum Funds.

### Investment Management Services

MAI provides discretionary and non-discretionary investment management to institutions and high net worth individuals and families. Services include:

- assisting the client with the establishment of their investment objectives and investment policy statement
- buying and selling securities such as stocks, bonds, mutual funds, and limited partnerships
- reporting holdings, transactions and performance on the client's investment portfolio

MAI also assists clients with the development of their asset allocation strategy, portfolio manager selection, managed account programs and advice with respect to outside holdings.

We discuss our discretionary authority below under **Item 16 - Investment Discretion**. For information about the restrictions clients can put on their accounts, see **Tailored Services and Client Imposed Restrictions** in this item below.

We describe the Fees charged for investment management services below under **Item 5 - Fees and Compensation**.

Management of client portfolios may vary greatly among clients as portfolio management is highly customized subject to both the client's experience and comfort with particular investment strategies, classes, and products as well as to the discretion portfolio managers are given to manage client portfolios, their experience, and their investment background.

Clients, as applicable, can also access MAI's investment management services through certain unaffiliated third parties under a sub-advisory relationship. These services are offered as separately managed accounts in MAI's investment strategies, as described below under **Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss**. The fees MAI receives under these arrangements are described below under **Item 5 - Fees and Compensation**.

### Adviser to Mutual Fund

MAI also serves as the investment adviser to the MAI Managed Volatility Fund (MAIPX/DIVPX), an open end mutual fund that is part of the Forum Family of Funds. The fund is registered under the Investment Company Act of 1940. MAI is not affiliated with Forum Funds.

MAI may allocate to our clients shares of the MAI Managed Volatility Fund, in which case MAI will exclude those shares from billing on the investment account and will only receive compensation as investment adviser to the Fund.

### Advisory Services

MAI's Advisory Services provides investment advisory services to ultra high net worth individuals and families, which may include (1) oversight of a greater number of independent investment managers than our traditional service, and (2) reporting on all investments, not only those held or managed by MAI but also assets held by outside parties. Additionally, this service may include our comprehensive

wealth management services to wealthy families. The services are designed to identify conflicts of interest in investment selection, with MAI acting as an overseer of other professionals while tailoring asset allocation for each family unit and/or entity as appropriate. Custodians and investment vehicles are recommended based on each client's overall goals and objectives. MAI receives no additional compensation other than our customary fee for advisory services.

We describe fees charged for advisory services below under ***Item 5 - Fees and Compensation***.

### *Wealth Management Services*

In addition to providing investment advice and advisory services, MAI provides wealth management services that may be fully integrated as part of a comprehensive offering or at times offered individually. In addition to investment management, these services may include estate and financial planning, advice on tax strategies, insurance, employee benefit analysis, and wealth transfer planning. MAI also provides preparation of United States federal, state and/or local tax returns, record keeping and administration of partnership interests and private investments, household management, budgeting and forecasting, as well as coordination of bill paying and payroll services for household or client corporation employees.

We describe fees charged for wealth management services below under ***Item 5 - Fees and Compensation***.

### *Non-Advisory Services*

MAI offers Tax Preparation, Insurance Administration, Family Office Services, including Client Accounting and Bill Paying Services. MAI provides our services to high net worth individuals. As such, MAI is able to provide services to foreign clients in tax matters and may partner with firms outside the U.S. for non-US tax compliance services and for completion of the foreign tax return.

### *Limitations on Investments*

In some circumstances, MAI's investment management advice may be limited to certain types of securities.

### *Limitation by Client*

MAI may also limit advice based on certain client-imposed restrictions. For more information about the restrictions clients can put on their accounts, see ***Tailored Services and Client Imposed Restrictions*** in this Item below.

### *Non-Managed Assets*

With respect to investment management services, MAI will only be responsible for the supervision and management of securities we recommend. MAI will not be responsible for the supervision or management of non-managed assets. Non-managed assets may include securities held in a client's account that is under management with MAI that were:

1. Delivered into the account by the client;
2. Purchased by the client;

3. Purchased by MAI at the request of the client as an accommodation; or
4. Designated by the client to be non-managed securities by written notification.

### **Tailored Services and Client Imposed Restrictions**

MAI manages accounts based on the clients' individual circumstances, financial situation, investment objective and goals, as discussed below under **Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss**. We make investment decisions for clients based on information the client supplies about their financial situation, goals, and risk tolerance. Our recommendations may be limited if the client does not provide us with accurate and complete information. It is the client's responsibility to keep MAI informed of any changes to their investment objectives or restrictions.

Clients may also request other restrictions on the account, such as when a client needs to keep a minimum level of cash in the account or does not want MAI to buy or sell certain specific securities or security types in the account. MAI reserves the right to not accept and/or terminate management of a client's account if we feel that the client-imposed restrictions would limit or prevent us from meeting or maintaining the client's investment strategy.

MAI manages pooled investment vehicles, including the Funds and the mutual fund, according to the investment objectives of the funds. Investors in a pooled investment vehicle may not place their individual restrictions on the fund.

### **Wrap Fee Programs**

MAI also manages accounts in wrap fee programs sponsored by other financial services firms. MAI is involved in wrap fee accounts through dual contract arrangements with Stifel Nicolaus and Co. and Wells Fargo Advisors Private Advisors Network. In a dual contract arrangement, the client signs an agreement with the broker-dealer and MAI's agreement with us. The client pays MAI our management fee in addition to the "wrap fees" charged by the sponsor. MAI does not receive a portion of the wrap fees the client pays to the wrap sponsor. Payment of advisory fees to MAI and wrap fees to the sponsor will increase overall costs. Therefore performance will differ in these "wrap fee" arrangement portfolios in comparison to other like managed portfolios.

MAI chooses investments and manages the accounts of clients in the wrap fee program the same way we manage other client accounts, and these clients have the same access to their portfolio managers as all other clients.

However, because wrap fee programs are often offered by or connected to a broker-dealer, we will use that broker-dealer when placing trades for those accounts. If we used a different broker, that broker might charge the client additional transaction costs that they are already paying for under the wrap fee. Our trading practices, described below under **Item 12 - Brokerage Practices**, may also affect wrap fee clients.



## Assets Under Management

MAI manages client assets in both discretionary and non-discretionary accounts. As of 12/31/2017, the total amount of assets under our management was:

12/31/2017	Assets Under Management
Discretionary	\$ 3,899,111,082
Non-Discretionary	669,867,063
Total	\$ 4,568,978,145

## ITEM 5 - FEES AND COMPENSATION

### Fee Schedules

MAI may negotiate and charge different fees for certain accounts based on the client's particular needs and circumstances. Fees may also differ based on account inception dates. MAI may also manage some family and related accounts for a reduced fee. Any fee or billing arrangements different from those described below will be detailed in the client agreement.

#### Investment Management Services

##### *Discretionary or Non-Discretionary Portfolio Management Fees*

MAI computes and charges fees for discretionary or non-discretionary portfolio at generally not more than 1.0% of the client's assets under management. We typically apply the same rate to the cash portion of each account as for all other assets in the account. We may negotiate fees for both discretionary and non-discretionary accounts. Negotiated fees may include customized arrangements for clients seeking a package of services which includes investment advice, wealth management and other non-advisory services such as bill-paying or income tax preparation. However, the portion of such fees that apply to portfolio management generally will not be more than 1.0% per year of the market value of the client's assets under management. MAI's policy is to round account values and fee values to the nearest dollar when invoicing clients.

In addition, MAI may charge an advisory fee on assets invested in a managed account program or mutual funds in addition to those fees charged by the outside investment manager. This is also true for accounts invested using the ETF strategy.

Some clients are involved in "wrap fee" arrangements that they have arranged with brokers. The client pays MAI our management fee in addition to the "wrap fees" charged by the sponsor. Payment of advisory fees to MAI and wrap fees to the sponsor will increase overall costs. Therefore performance will differ in these "wrap fee" arrangement portfolios in comparison to other like managed portfolios.

As provided in MAI advisory agreements, MAI may use the services of third-party investment managers (sub-advisers). When we believe it is appropriate and in the best interest of the client, MAI may allocate a portion of or the client's entire portfolio to the sub-adviser for management. While the client's portfolio is invested with another manager, MAI has a committee to monitor the sub-adviser's performance and ensure that future performance will not be compromised by organizational and product-level changes. In some cases, the fees charged by the sub-adviser are greater than those charged by MAI.

#### *Sub-Advisory Relationships*

The annual fees MAI receives for our services through third party sub-advisory relationships vary based upon the program, minimum investment requirements, and asset levels, and will typically be at or lower than our standard fee rate. The fees we receive for providing investment management services do not include other fees charged by the third party adviser to the client. Fees under these programs may be billed in arrears or advance, and MAI may be paid by the third party adviser or directly by the client, depending on the program. Clients using MAI as a sub-adviser through third party advisers may terminate our management services per the terms in the agreement, which vary by program.

#### *Limited Liability Company and Limited Partnership Fees*

MAI serves as manager to certain investment-related Limited Liability Companies, and Limited Partnerships (the "Funds"). All assets invested in the Funds by MAI clients are excluded from the value of the client's account for the calculation of MAI's discretionary or non-discretionary management fees. MAI receives investment management fees from each of the funds we advise. These fees are paid by the fund but are ultimately borne by its members. The operating agreements and related documents of each fund set forth the applicable investment advisory fees. As noted in each funds' private placement memorandum, MAI generally receives an annual asset-based management fee from the Funds. These fees generally do not exceed 1.0%. The fee for the MAI Wealth Private Equity Fund, L.P., MAI Opportunity Fund, L.P., MAI Capital Income and Growth Fund II, L.P., MAI Capital Income and Growth Fund, III, L.P., MAI Diversified Real Estate Income Fund, L.P., MAI Capital Income and Growth Fund IV, L.P., and MAI Diversified Real Estate Income Fund II, L.P. includes both an investment management and a performance-based fee. The MAI Wealth Private Equity Fund is sub-advised by Algonquin Advisors LLC. MAI will share with Algonquin Advisors LLC a percentage of the performance allocation earned by the General Partner. The MAI Capital Income and Growth Fund, III, L.P. is sub-advised by Oak Street Real Estate Capital, LLC, which will receive a percentage of the performance allocation earned as a Special Limited Partner through ATC Manager, LLC. For additional information regarding the MAI Wealth Private Equity Fund, L.P. or MAI Capital Income and Growth Fund, III, L.P., please see **Items 6, 8, and 10** below.

#### *Billing Method*

Fees for discretionary or non-discretionary management are billed directly to client accounts when clients authorize MAI to receive payment directly from their custodians. Clients may designate one or more accounts from which they want the custodian to deduct the fee for all or some accounts. MAI will send the client's custodian an invoice for the amount of our fee or debit the account directly when that service is available. MAI will also send to clients a statement showing the amount of the fee, the value of the account on which the fee was based and the manner in which the fee was calculated. Clients are

responsible for verifying that the fee was correctly calculated and deducted from the account. All clients will receive statements from the custodian no less frequently than quarterly but often monthly. The custodian statement will show the deduction of the advisory fee for those clients who authorize the advisory fees to be withdrawn directly from their custodian account.

MAI will send an invoice to all clients who choose not to have advisory fees withdrawn directly from their custodian account. The invoice is payable upon receipt and will include the fee calculation and amount due.

MAI's advisory fees are typically payable quarterly in arrears at the beginning of each calendar quarter. We charge one fourth of the annual fee rate each quarter based on the market value of the client's portfolio as of the last day of the prior calendar quarter. MAI pro-rates advisory fees for partial quarters and may pro-rate fees for significant contributions to or withdrawals from the accounts. MAI's policy is to round account values and fee values to the nearest dollar when invoicing clients.

The billing methods for the private funds are outlined in each Fund's Private Placement Memoranda.

#### Adviser to Mutual Funds

The fees MAI receives for providing investment management services to the MAI Managed Volatility Fund (MAIPX/DIVPX) is outlined in the written advisory agreement for the fund. The fees are disclosed and described in the fund's prospectus.

#### Advisory Services

Fees for MAI's Advisory Services are charged as a percentage of the client's assets under advisement or a negotiated retainer. The annual fee rate charged to each client will be negotiated with the client based on the scope of services to be provided and will be documented in the agreement with the client. The annual fee rate will generally not exceed 1.0% of assets under advisement. Fees for the service are billed quarterly in arrears at the beginning of each calendar quarter and will typically be invoiced to the client. Alternative payment arrangements may be made upon client request.

#### Wealth Management Services

For our integrated wealth management services, MAI fees are determined on a client by client basis. Our negotiations depend on a number of factors, especially the number and range of wealth management and related services we provide to the client and the complexity of the client's personal financial situation. MAI generally charges an annual retainer for the financial planning, tax, and related wealth management services and an assets-under-management fee for our investment management services. We negotiate specific fees and timing of fees with clients.

The fee for investment management services for wealth management clients is typically charged based on a percentage of the client's assets under management, per the following schedule:

Investment Management	AUM	Annual Fee Rate
Blended Asset Allocation	First \$1MM	0.75%
	Next \$2MM	0.65%
	Over \$3MM	0.55%
Single Asset Class	AUM	Annual Fee Rate
Equity, Fixed Income & Alternatives	Fixed Income	0.35%
	First \$2MM	1.00%
	Next \$2MM	0.90%
	Over \$4MM	0.80%

Some accounts may be under different fee schedules.

With client authorization, MAI will automatically withdraw MAI's wealth management fees from one or more of the client's accounts held by an independent custodian. (See additional information about under **Investment Management Services – Billing Method** above for fees paid directly by the custodian.) MAI will send an invoice to all clients who choose not to have advisory fees withdrawn directly from their custodian account and for the annual retainer fees. MAI bills the annual retainer fees quarterly in arrears. The invoice is payable upon receipt and will include the fee calculation and amount due.

Under special circumstances, MAI may also offer financial planning services on an hourly basis. The hourly fee ranges from \$250 to \$300 per hour. The fee may be negotiable depending on the nature and complexity of each client's situation. MAI bills hourly financial planning fees monthly in arrears.

MAI currently provides investment advice and financial planning to certain clients of International Merchandising Corporation ("IMC") and IMG Worldwide, Inc. ("IMG Worldwide"), companies formerly affiliated with McCormack Advisors International. Under this arrangement, IMG Worldwide pays MAI at least the difference between the amount paid by such clients and the actual cost of providing such services.

## Other Fees and Expenses

MAI's fees do not include custodian fees. Clients pay all brokerage commissions, stock transfer fees, margin interest and fees, and/or other similar charges incurred in connection with transactions in accounts, from the assets in the account. These charges are in addition to the fees client pays to MAI. See **Item 12 - Brokerage Practices** below for more information.

In addition, any mutual fund shares held in a client's account may be subject to deferred sales charges, 12b-1 fees, and other fund-related expenses. Each fund's prospectus fully describes the fees and expenses. All fees paid to MAI for investment management services are separate and distinct from the

fees and expenses charged by mutual funds. Mutual funds and ETFs pay advisory fees to their managers, which are indirectly charged to all holders of the mutual fund shares. Consequently, clients with mutual funds in their portfolios are effectively paying both MAI and the mutual fund manager for the management of their assets.

## Termination

All MAI contracts for investment management, financial planning, wealth management, advisory and non-advisory services may be terminated by either MAI or the client at any time by providing written notice to the other party. Termination is effective upon receipt of the notice.

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

MAI charges a performance-based fee for the MAI Wealth Private Equity Fund, L.P., the MAI Opportunity Fund, L.P., the MAI Capital Income and Growth Fund II, L.P., the MAI Capital Income and Growth Fund III, L.P., the MAI Diversified Real Estate Income Fund, L.P., the MAI Capital Income and Growth Fund, IV, L.P., and the MAI Diversified Real Estate Income Fund II, L.P. MAI does not manage any other accounts in a similar manner to the management of these funds.

Except when an MAI client insists on a fee schedule that includes a performance fee in which MAI agrees, MAI does not charge performance-based fees for any other account or strategy. Managing accounts under different fee arrangements may create a conflict of interest. Performance-based fee arrangements may create a conflict of interest for the portfolio manager as he or she may have incentives to:

1. Allocate investment opportunities that he or she believes might be the most profitable to performance-based fee accounts; and/or
2. Make investments with more risk or that are more speculative than those that he or she might recommend under a different fee arrangement.

MAI has adopted policies and procedures reasonably designed to address these types of conflicts. Specifically, the policies and procedures are designed to allocate investment opportunities between accounts on a fair and equitable basis over time and prevent non-suitable investments in client accounts.

## ITEM 7 - TYPES OF CLIENTS

### Types of Clients

MAI provides investment, advisory, and wealth management services to a number of client groups, including:

- Individuals.
- High-Net worth individuals, families and their trusts including the following:

- Senior officers of major corporations and their families. Given the nature of MAI's services, individual clients typically have a net worth in excess of \$2,000,000 and generally earn at least \$150,000 per year.
- Sports professionals who earn income from a variety of domestic and global sources. MAI provides investment advice and financial planning services to some of these individuals through an agreement with IMC or IMG Worldwide, as described in **Item 5** above.
- Pension, profit-sharing and other employee benefit plans, endowments, foundations, trusts, and other entities.
- Certain corporations (primarily S corporations).

MAI provides investment advisory services to investment-related limited liability companies and limited partnerships managed by MAI. MAI also serves as the investment adviser to the MAI Managed Volatility Fund (MAIPX/DIVPX).

### Account Requirements

MAI generally suggests a minimum of \$500,000 to establish an investment management account. The minimum may vary by investment strategy. It is *ideal* for clients to invest assets as noted in the table below. For wealth management clients who also establish a managed account, MAI may accept accounts below the suggested minimum. In our composite construction criteria, MAI may set a lower minimum. For full service wealth management and/or investment management services, MAI suggests a net worth of at least \$1,000,000 and current income of at least \$150,000. Investors should refer to the subscription documents for minimum amounts related to the LLCs and the private partnerships (the Funds) as net worth and minimums will vary and may be higher.

Strategy	Ideal Minimum
MAI Managed Volatility Strategy	\$ 10,000,000
Dividend Strategy	500,000
Diversified Core Strategy	500,000
Diversified Dividend Strategy	500,000
Core Strategy	500,000
Exchange Traded Fund (ETF) Strategy	250,000
MAI Energy Infrastructure & MLP Strategy	250,000
Fixed Income – Tax Exempt	250,000
Fixed Income - Taxable	250,000

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

### Methods of Analysis

Regarding individual stocks, MAI relies primarily on fundamental analysis, principally with respect to management record, financial condition, profitability levels, growth prospects and market price in relation to historic valuation ranges, and total return (current yield plus anticipated capital appreciation) discounted for inflation. Technical analysis is sometimes used as a secondary valuation tool.

Regarding equity mutual funds, MAI reviews key characteristics such as historical performance, consistency of returns, risk level, size of fund, etc. Expense ratio and other costs are also significant factors in fund selection.

Regarding fixed income investments, MAI considers the financial strength of the issuer, call provisions, liquidity factors and bond insurance in selecting bonds for purchase.

Regarding options, MAI utilizes various strategies (covered options, uncovered options, or option spreads) that look to meet the needs of our investor base. With few exceptions these strategies are defensive in nature and do not involve leverage.

Regarding the Private Equity Fund, MAI relies on the investment process of Algonquin Advisors LLC (SEC #801-60462), the Investment Advisor for the fund.

### Main Sources of Information

MAI analyzes securities using information obtained from annual reports and Forms 10-K, financial periodicals, financial rating services, management interviews, corporate news releases, industry participants, government statistical information, prospectuses and research information of major brokerage houses and independent firms, and investment software programs including Bloomberg, FactSet, and Reuters. MAI remains current with general investment thinking through various periodicals, including Standard & Poor's, Value Line, Barrons, The Wall Street Journal, Forbes, as well as reports from research firms including ISI and Strategas.

MAI subscribes to Morningstar to stay current on mutual fund information and data. Conference calls, manager updates, and in-person meetings with the sub-adviser also provide valuable insights within our due diligence process.

MAI relies on credit rating agencies such as Standard & Poor's and Moody's to help determine the financial strength of issuing creditors. Prospectuses and other relevant information from bond underwriters are also used to help in analysis and selection of fixed income securities.

## General Investment Strategies

MAI treats each client account uniquely, seeking real capital growth proportionate to the level of risk the client is willing to take. MAI uses an investor identification and profile questionnaire to document the client's investment objectives, time horizon, risk tolerance, tax considerations, and any special considerations and/or restrictions the client chooses to place on the management of the account. MAI will then make recommendations that are consistent with the client's investment objectives. MAI selects suitable categories of investments based on the clients' attitudes about risk and their need for capital appreciation or income. Different instruments involve different levels of exposure to risk. Within each investment category, MAI selects individual securities with characteristics that are most consistent with the client's objectives. We deal with any client restrictions on an account-by-account basis.

Since MAI treats each client account uniquely, client portfolios with a similar investment objectives and asset allocation goals may own different securities. Timing and tax factors also influence MAI's investment decisions. Clients who buy or sell securities on the same day may receive different prices. Additionally, the timing of securities purchases and sales may differ depending on the timing of each portfolio manager's decision to implement changes in the portfolio.

MAI primarily seeks to hold securities for the longer-term, especially in taxable accounts. MAI uses short-term trades, and options less frequently, and only when in MAI's judgment they are appropriate for a particular account or given market condition. Option strategies may include covered options, uncovered options, or option spreads, based on the needs of the particular account. With few exceptions, these strategies are defensive in nature and do not involve leverage. Frequent trading can result in higher taxes and transaction costs, and there is risk of principal loss associated with option strategies.

Some clients of MAI maintain margin accounts. Accordingly, margin is occasionally used to implement investment advice given by MAI to these clients. Clients are responsible for any brokerage or margin charges in addition to advisory fees.

Additionally, MAI may recommend third-party investment advisers for the management for all or a portion of the client's portfolio depending on the client's investment objectives and financial situation. MAI may recommend private funds and/or private placements for clients that meet certain net worth or other accreditation requirements and/or for clients who have a sufficient high tolerance for risk.

### Specific Investment Strategies

MAI may invest client assets using one or a combination of distinct investment strategies, which we detail here:

- MAI Managed Volatility Strategy

The MAI Managed Volatility Strategy invests in a diversified portfolio of companies with an options overlay of fully collateralized put and call contracts. The objective of the Managed Volatility strategy is to achieve performance through stock appreciation, dividend income, interest income, and option



premium. MAI's focus on large-cap total return-oriented stocks and target equity weighting, typically in the 45-55% of total assets range, limits the Strategy's ability to fully participate in sharply rising stock markets. However, these factors as well as the option premium generated by selling cash secured puts and covered calls provide downside protection in sharply falling markets. When price change, dividends and interest income are coupled with the premium generated from the option writing activity, MAI believes the Strategy can achieve its objective with less downside deviation than traditional equity investment strategies; in effect, managing volatility.

- Dividend Strategy

We select securities for our Dividend Strategy from a global universe of dividend paying stocks trading in the U.S. We screen for desired dividend characteristics that we believe indicate the commitment of management to pay significant and growing dividends. We review those securities for factors such as return on equity and relative valuation as well as factors that will affect their ability to increase their dividend in the future such as: revenue, earnings, and cash flow expectations, as well as balance sheet strength. We seek to include companies with strong business models and a solid franchise. The portfolio is generally diversified across 30-40 stocks with exposure to at least 10 industries, no more than 30% invested in any one industry, invested 10-40% in foreign companies through ADRs, and generally expects to hold less than 10% cash except under extraordinary economic or market conditions.

- Diversified Core Strategy

This Strategy looks to invest in equities and alternatives in a diversified manner based upon MAI's outlook on the various segments of the market and the overall outlook for equities relative to alternative investments. The strategy will typically hold a combination of US and foreign stocks as well as stock funds in the mid cap, small cap, international developed, and emerging market sectors. Alternative investments may include securities such as commodities, MLPs, and global bond funds. The individual stock component of the portfolio invests in mid and large cap industry-leading businesses that we believe are attractively valued in the market.

- Diversified Dividend Strategy

This Strategy looks to invest in equities and alternatives in a diversified manner based upon MAI's outlook on the various segments of the market and the overall outlook for equities relative to alternative investments. The strategy will typically hold a combination of US and foreign stocks as well as stock funds in the mid cap, small cap, international developed, and emerging market sectors. Alternative investments may include securities such as commodities, MLPs, and global bond funds. The individual stock component of the portfolio will emphasize high quality companies that pay an above-average dividend and have strong dividend growth prospects.

- Core Strategy

Our Core Strategy looks to invest in mid and large cap industry-leading businesses that we believe are attractively valued in the market. We focus on companies that have a significant and durable competitive advantage, high return on invested capital, above average sales growth, strong balance sheets, and shareholder-oriented management. We invest in stocks that have the best combination of these characteristics but are also reasonably priced. We derive upside and downside price targets based on our estimate of intrinsic value under different scenarios. Stocks with the best risk-to-reward ratios are added to the portfolio. The strategy will typically hold 30-40 securities, with moderate turnover, and no more than 30% invested in any one industry.

- Exchange Traded Fund (ETF) Strategy

Our objective in this strategy is to implement our equity asset allocation using ETFs. We create a diversified portfolio using ETFs to minimize cost. We may employ this strategy for smaller portfolios to achieve diversification and cost savings which would not be possible with stocks and bonds due to the size of the account.

- MAI Energy Infrastructure & MLP Strategy

In this strategy we seek capital appreciation and distributions from investments in publicly traded partnerships, particularly those that focus on energy transportation, and related corporations such as general partners. This is a concentrated energy sector strategy that may have risks, including federal tax policy risks not present in a more diversified portfolio. We will generally use this strategy together with other strategies or as a specific mandate in a client's portfolio. Each MLP issues an annual Schedule K-1 to characterize the distributions; e.g., how much is a return of capital that impacts the cost basis. Investments in MLPs may result in taxable Unrelated Business Taxable Income (UBTI) that can be problematic for certain tax deferred or tax exempt accounts; seek tax advice for your account type before investing in MLPs.

- Fixed Income – Tax Exempt

In this strategy we focus on building a portfolio of investment grade securities, e.g. municipals, with a laddered maturity schedule. The portfolio can be customized to emphasize state of residence but will generally maintain national diversification. The goal of the strategy is capital preservation and predictable, tax-exempt income streams.

- Fixed Income - Taxable

In this strategy we purchase a portfolio of taxable investment grade bonds with a laddered maturity schedule. The portfolio may include corporate or agency issued securities. MAI seeks to diversify corporate issues by sector/industry and managed to mitigate issuer credit risk. The goal of the strategy is capital preservation and predictable income streams.

*Investment Funds*

In addition, MAI serves as the investment manager of the following investment funds (“the Funds”). MAI may recommend investment in these Funds to clients based on factors that include but are not limited to accreditation status, the level of interest clients express during meetings with MAI, and whether the program would offer diversification to the client’s overall portfolio. We consider these types of investments to carry a higher degree of risk than our other strategies. These securities are only available to accredited investors. Investments in such limited offerings will only occur after conducting additional consultation with the client and after the client has approved of the investment and strategy for his/her portfolio.

- MAI Wealth Private Equity Fund, L.P. – a Delaware limited partnership (“Private Equity Fund”) that began operations in September 2008

The investment objective of the Private Equity Fund is to achieve an annual rate of return on invested capital in excess of the returns generated by conventional investments in the public equity market and the private equity market through a diversified portfolio of investments in limited partnerships or other pooled investment vehicles organized by independent fund sponsors (each, a “Portfolio Investment” and collectively, the “Portfolio Investments”) focused primarily on venture capital, private equity, leveraged buyouts and mezzanine debt. In addition, the Private Equity Fund may acquire Portfolio Investments on the secondary market and may co-invest directly in the underlying investments of these Portfolio Investments (each a “Direct Investment” and collectively “Direct Investments”). The final closed date has been reached and this fund is closed to new investors.

Pursuant to an investment advisory agreement, the Investment Manager has delegated day-to-day investment management of the Private Equity Fund to Algonquin Advisors LLC (SEC #801-60462), a Connecticut limited liability company. Algonquin Advisors LLC is controlled by George T. Hubbard.

- MAI Managed Volatility Fund, L.P.– a Delaware limited partnership (“Managed Volatility Fund”) that began trading May 1, 2009

The objective of the Managed Volatility Fund is to achieve performance through stock appreciation, dividend income and option premium. The Managed Volatility Fund’s investment strategy seeks to provide consistent returns, relative to the markets generally, by employing an actively managed option overlay strategy on a high quality, value based portfolio. The Managed Volatility Fund will generally consist of about 25-50 underlying equities with above-average dividend yields that have consistently grown their dividends at attractive levels. The Managed Volatility Fund expects to sell covered calls and cash secured puts. In order to avoid the use of leverage it will maintain a significant cash balance, typically 40-60%, in the event puts are assigned.

The Investment Manager oversees the investment activities of the Managed Volatility Fund and provides administrative and management support services to the Managed Volatility Fund. The

Managed Volatility Fund has a stated minimum of \$500,000; however, the General Partner has the right to waive this minimum at its sole discretion.

- MAI Opportunity Fund, L.P. – a Delaware limited partnership (“Opportunity Fund”) that began operations in January 2014

The investment objective of the Opportunity Fund is to achieve an annual rate of return on invested capital in excess of the returns generated by conventional investments in the public equity market and the private equity market through a diversified portfolio of opportunistic investments in limited partnerships or other pooled investment vehicles, co-investments in the underlying investments of these Portfolio Investments (each a “Direct Investment” and collectively “Direct Investments”) and other investments, such as but not limited to structured notes and other securities and financial instruments. The final closed date has been reached and this fund is closed to new investors.

- MAI Capital Income and Growth Fund II, L.P. – a Delaware limited partnership (“CIG II”) that began operations in December 2015

The purpose of the CIG II is to acquire a limited partner interest in Oak Street Real Estate Capital Fund III, LP, a Delaware limited partnership (the “Underlying Fund”); therefore, the investment opportunity is in the Underlying Fund. The Underlying Fund is a private investment limited partnership that seeks to achieve appreciation of its assets acquiring single-tenant commercial real estate leased to investment grade or equivalent tenants pursuant to net leases. The Underlying Fund will invest exclusively in investment grade or equivalent, single-tenant, free-standing triple net or double net lease assets with a minimum of 11-years of lease term remaining with an emphasis on recession resistant tenants and mission-critical locations. The final closed date has been reached and this fund is closed to new investors.

- MAI Capital Income and Growth Fund III, L.P. – a Delaware limited partnership (“CIG III”) that began operations in September 2016

The investment objective of the CIG III is to indirectly (through a wholly-owned subsidiary), acquire, own, operate, manage, lease, develop, finance and sell or otherwise dispose of a single-tenant commercial building leased to a tenant pursuant to a triple net lease. The Income and Growth Fund III may also invest in monetary instruments, cash and cash equivalents and limited amounts of publicly-traded financial investments when the General Partner deems such investments appropriate. The final closed date has been reached and this fund is closed to new investors.

- MAI Diversified Real Estate Income Fund, L.P. – a Delaware limited partnership (“DREIF”) that began operations in January 2017.

The investment objective of the Partnership is to invest, through direct investments, investments in comingled vehicles and other structures, in income producing real estate of multiple types, including, but not limited to, multi-family, office, industrial and retail real estate. The Partnership may also

invest in monetary instruments, cash and cash equivalents, limited amounts of publicly-traded financial investments and other “short-term” investments when the General Partner deems such investments appropriate. The Partnership will seek to invest in real estate opportunities that provide a significant and sustainable amount of cash flow in addition to the potential for appreciation. More specifically, the Partnership will try to acquire assets that provide strong, unleveraged yields in niche markets trading at attractive valuations. The General Partner believes that, amongst other markets, such opportunities exist in secondary and tertiary market suburban office, workforce housing (apartments), and niche retail. The Partnership will generally partner with experts in each real estate niche which are able to lend their operational expertise. The fund has reached its investment cap and is closed to new investors.

- MAI Capital Income and Growth Fund IV, L.P. – a Delaware limited partnership (“CIG IV”) that began operations in August 2017.

The purpose of CIG IV is to invest all of its investible assets in, and carry out its investment program through, Oak Street Real Estate Capital Fund IV, LP, a Delaware limited partnership (the “Underlying Fund”). The Underlying Fund is a private investment limited partnership that is seeking to acquire a portfolio of commercial real estate, diversified by (i) location, (ii) property type, (iii) tenant and (iv) industry, consisting primarily of free-standing, single-tenant commercial properties net leased to investment grade or equivalent tenants in accordance with the investment parameters described in the Underlying Fund Memorandum. These parameters, to which the Underlying Fund will be subject, including investment in investment grade or equivalent, single-tenant, triple net or double net lease assets with a target of 15 years and a minimum of 11 years of lease term remaining with an emphasis on recession resistant tenants and mission- critical locations at or above a 7.0% capitalization rate, as more fully described in the Underlying Fund Memorandum.

- MAI Diversified Real Estate Income Fund II, L.P. – a Delaware limited partnership (“DREIF II”) that began operations in December 2017.

The Partnership will seek to invest in real estate opportunities that provide a significant and sustainable amount of cash flow in addition to the potential for appreciation. More specifically, the Partnership will try to acquire assets that provide strong, unleveraged yields in niche markets trading at attractive valuations. The General Partner believes that, amongst other markets, such opportunities exist in secondary and tertiary market suburban office, workforce housing (apartments), and niche retail. The Partnership will generally partner with experts in each real estate niche which are able to lend their operational expertise. The Partnership has retained the Investment Manager to enable the Partnership to seek transactions sourced by virtue of the Investment Manager’s relationships with such experts. This investment sourcing strategy will generally focus on sectors where the Investment Manager and its personnel have historical experience, particularly with MAI Diversified Real Estate Income Fund, L.P.

### Third-Party Advisers

MAI may recommend other investment advisers based on the client's investment objectives and financial situation, and the other investment adviser's management style. Our process of selecting these managers includes analyzing performance data, risk characteristics, expenses, manager tenure and experience, style consistency, firm reputation, and the scalability of the strategy. On an ongoing basis we review managers based on these quantitative and qualitative factors to ensure they are meeting our expectations.

### Adviser to Mutual Fund

MAI also serves as the investment advisor to the MAI Managed Volatility Fund (MAIPX/DIVPX), an open end mutual fund that is part of the Forum Family of Funds, and which is registered under the Investment Company Act of 1940. MAI is not affiliated with Forum Funds. MAI will purchase and sell securities as outlined in the MAI Managed Volatility Fund's prospectus and statement of additional information, which may include dividend paying U.S. securities and foreign companies traded in the U.S. (e.g. American Depository Receipts (ADRs)) and options (e.g. covered calls and cash secured short puts), among other securities. For the risks associated with investing in the mutual fund, investors should read the fund's prospectus.

### **General Risk of Loss Statement**

Prior to entering into an agreement with MAI, the client should carefully consider:

1. That investing in securities involves risk of loss which clients should be prepared to bear;
2. That securities markets experience varying degrees of volatility;
3. That over time the client's assets may fluctuate and at anytime be worth more or less than the amount invested; and
4. That clients should only commit assets that they feel are currently unneeded and available to MAI for investment on a long-term basis. This is typically a minimum of five to seven years.

### **Specific Security Risks**

#### General Risks of Owning Securities

The prices of securities held in client accounts and the income they generate may decline in response to certain events taking place around the world. These include events directly involving the issuers of securities held as underlying assets of mutual funds in a client's account, conditions affecting the general economy, and overall market changes. Other contributing factors include local, regional, or global political, social, or economic instability and governmental or governmental agency responses to economic conditions. Finally, currency, interest rate, and commodity price fluctuations may also affect security prices and income.

The prices of, and the income generated by, most debt securities held by a client's account may be affected by changing interest rates and by changes in the effective maturities and credit ratings of these securities. For example, the prices of debt securities in the client's account generally will decline when

interest rates rise and increase when interest rates fall. In addition, falling interest rates may cause an issuer to redeem, “call” or refinance a security before its stated maturity, which may result in reinvesting the proceeds in lower yielding securities. Longer maturity debt securities generally have higher rates of interest and may be subject to greater price fluctuations than shorter maturity debt securities. Debt securities are also subject to credit risk, which is the possibility that the credit strength of an issuer will weaken and/or an issuer of a debt security will fail to make timely payments of principal or interest and the security will go into default. The guarantee of a security backed by the U.S. Treasury or the full faith and credit of the U.S. government only covers the timely payment of interest and principal when held to maturity. MAI generally purchases debt securities on the presumption that they will be held to maturity, therefore it is important to note that the current market values for these securities will fluctuate with changes in interest rates.

Investments in securities issued by entities based outside the United States may be subject to increased levels of the risks described above. Currency fluctuations and controls, different accounting, auditing, financial reporting, disclosure, regulatory and legal standards and practices could also affect investments in securities of foreign issuers. Additional factors may include expropriation, changes in tax policy, greater market volatility, different securities market structures, and higher transaction costs. Finally, various administrative difficulties, such as delays in clearing and settling portfolio transactions, or in receiving payment of dividends can increase risk. Finally, investments in securities issued by entities domiciled in the United States may also be subject to many of these risks.

### *Mutual Funds (Open-end Investment Company)*

A mutual fund is a company that pools money from many investors and invests the money in stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. The portfolio of the fund consists of the combined holdings it owns. Each share represents an investor’s proportionate ownership of the fund’s holdings and the income those holdings generate. The price that investors pay for mutual fund shares is the fund’s per share net asset value (NAV) plus any shareholder fees that the fund imposes at the time of purchase (such as sales loads). The benefits of investing through mutual funds generally include professional management, diversification, affordability, and liquidity.

Mutual funds also have features that some investors might view as disadvantages:

#### *Costs Despite Negative Returns*

Investors must pay sales charges, annual fees, and other expenses regardless of how the fund performs. Depending on the timing of their investment, investors may also have to pay taxes on any capital gains distribution they receive. This includes instances where the fund went on to perform poorly after purchasing shares.

#### *Lack of Control*

Investors typically cannot ascertain the exact make-up of a fund’s portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades.



*Price Uncertainty*

With an individual stock, investors can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling a broker or your investment adviser. Investors can also monitor how a stock's price changes from hour to hour—or even second to second. By contrast, with a mutual fund, the price at which an investor purchases or redeems shares will typically depend on the fund's NAV, which the fund might not calculate until many hours after the investor placed the order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

When it comes to investing in mutual funds, investors have literally thousands of choices. Most mutual funds fall into one of three main categories; money market funds, bond funds (also called “fixed income” funds), and stock funds (also called “equity” funds). In addition to these main categories, MAI may purchase mutual funds in other categories (i.e. alternatives). Each type has different features and different risks and rewards. Generally, the higher the potential return, the higher the risk of loss.

*Tax Consequences of Mutual Funds*

When investors buy and hold an individual stock or bond, the investor must pay income tax each year on the dividends or interest the investor receives. However, the investor will not have to pay any capital gains tax until the investor actually sells and makes a profit. Mutual funds are different. When an investor buys and holds mutual fund shares, the investor will owe income tax on any ordinary dividends in the year the investor receives or reinvests them. Moreover, in addition to owing taxes on any personal capital gains when the investor sells shares, the investor may have to pay taxes each year on the fund's capital gains. That is because the law requires mutual funds to distribute capital gains to shareholders if they sell securities for a profit that cannot be offset by a loss.

*Exchange-Traded Funds (ETFs)*

An ETF is a type of Investment Company (usually, an open-end fund or unit investment trust) containing a basket of stocks. Typically, the objective of an ETF is to achieve the same return as a particular market index, including sector indexes. Generally, an ETF is similar to an index fund in that it will primarily invest in securities of companies that are included in a selected market. Unlike traditional mutual funds, which can only be redeemed at the end of a trading day, ETFs trade throughout the day on an exchange. Like stock mutual funds, the prices of the underlying securities and the overall market may affect ETF prices. Similarly, factors affecting a particular industry segment may affect ETF prices that track that particular sector.

*Exchange-Traded Notes (ETNs)*

An ETN is a senior, unsecured, unsubordinated debt security by an underwriting bank whose primary objective is to achieve the same return as a particular market index. Similar to other debt securities, the credit of the issuer is the only backing for ETNs, which have a maturity date. Although performance is contractually tied to whatever index the ETN is intended to track, ETNs do not have any assets, other than a claim against their issuer for payment according to the terms of the contract. Unlike traditional mutual funds, which can only be redeemed at the end of a trading day, ETNs trade throughout the day on an exchange. ETNs, as debt instruments, are subject to risk of default by the issuing bank as counter



party. This is the major design difference between ETFs and ETNs: ETFs are only subject to market risk whereas ETNs are subject to both market risk and the risk of default by the issuing bank.

### Equity Securities

Equity securities represent an ownership position in a company. Equity securities typically consist of common stocks. The prices of stocks and the income they generate (such as dividends) fluctuate based on, among other things, events specific to the company that issued the shares, conditions affecting the general economy and overall market changes, changes or weakness in the business sector the company does business in, and other factors.

#### *Small Capitalization Equity Securities*

Investing in smaller companies may pose additional risks as it is often more difficult to value or dispose of small company stocks, more difficult to obtain information about smaller companies, and the prices of their stocks may be more volatile than stocks of larger, more established companies. Clients should have a long-term perspective and, for example, be able to tolerate potentially sharp declines in value.

### Options

An option is the right either to buy or sell a specified amount or value of a particular underlying interest at a fixed exercise price by exercising the option before its specified expiration date. An option which gives a right to buy is a call option. An option which gives a right to sell is a put option. Calls and puts are distinct types of options and the buying or selling of one type does not involve the other. Option strategies may include covered options, uncovered options, or options spreads, based on the needs of the particular account. With few exceptions, these strategies are defensive in nature and do not involve leverage.

### Warrants and Rights

Warrants may be issued together with bonds or preferred stocks. Warrants generally entitle the holder to buy a proportionate amount of common stock at a specified price, usually higher than the current market price. Warrants may carry an expiration date or exist in perpetuity. Rights are similar to warrants except that they normally entitle the holder to purchase common stock at a lower price than the current market price.

### Debt Securities (Bonds)

Issuers use debt securities to borrow money. Generally, issuers pay investors periodic interest and repay the amount borrowed either periodically during the life of the security and/or at maturity. Alternatively, investors can purchase other debt securities, such as zero coupon bonds, which do not pay current interest, but rather are priced at a discount from their face values and their values accrete over time to face value at maturity. The market prices of debt securities fluctuate depending on such factors as interest rates, credit quality, and maturity. In general, market prices of debt securities decline when interest rates rise and increase when interest rates fall. The longer the time to a bond's maturity, the greater its interest rate risk.

Certain additional risk factors relating to debt securities include:

*Reinvestment Risk*

When interest rates are declining, investors have to reinvest their interest income and any return of principal, whether scheduled or unscheduled, at lower prevailing rates.

*Inflation Risk*

Inflation causes tomorrow's dollar to be worth less than today's; in other words, it reduces the purchasing power of a bond investor's future interest payments and principal, collectively known as "cash flows." Inflation also leads to higher interest rates, which in turn leads to lower bond prices.

*Interest Rate and Market Risk*

Debt securities may be sensitive to economic changes, political and corporate developments, and interest rate changes. Investors can also expect periods of economic change and uncertainty, which can result in increased volatility of market prices and yields of certain debt securities. For example, prices of these securities can be affected by financial contracts held by the issuer or third parties (such as derivatives) relating to the security or other assets or indices.

*Call Risk*

Debt securities may contain redemption or call provisions entitling their issuers to redeem them at a specified price on a date prior to maturity. If an issuer exercises these provisions in a lower interest rate market, the account would have to replace the security with a lower yielding security, resulting in decreased income to investors.

Usually, a bond is called at or close to par value. This subjects investors that paid a premium for their bond to a risk of lost principal. In reality, prices of callable bonds are unlikely to move much above the call price if lower interest rates make the bond likely to be called.

*Credit Risk*

If the issuer of a debt security defaults on its obligations to pay interest or principal or is the subject of bankruptcy proceedings, the account may incur losses or expenses in seeking recovery of amounts owed to it.

*Liquidity and Valuation Risk*

There may be little trading in the secondary market for particular debt securities, which may affect adversely the account's ability to value accurately or dispose of such debt securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of debt securities.

MAI attempts to reduce the risks described above through diversification of the client's portfolio and by credit analysis of each issuer, as well as by monitoring broad economic trends and corporate and legislative developments, but there can be no assurance that we will be successful in doing so. Credit ratings for debt securities provided by rating agencies reflect an evaluation of the safety of principal and interest payments, not market value risk. The rating of an issuer is a rating agency's view of past and future potential developments related to the issuer and may not necessarily reflect actual outcomes.

There can be a lag between the time of developments relating to an issuer and the time a rating is assigned and updated.

Bond rating agencies may assign modifiers (such as +/-) to ratings categories to signify the relative position of a credit within the rating category. Unless we state otherwise, clients should include any security within that category without considering the modifier when reading their investment policies based on ratings categories.

### *Obligations Backed by the "Full Faith and Credit" of the U.S. Government*

U.S. government obligations include the following types of securities:

#### *U.S. Treasury Securities*

U.S. Treasury securities include direct obligations of the U.S. Treasury, such as Treasury bills, notes, and bonds. For these securities, the U.S. government unconditionally guarantees the payment of principal and interest, resulting in the highest possible credit quality. Fluctuations in interest rates subject U.S. Treasury securities to variations in market value. However, they are paid in full when held to maturity.

#### *Federal Agency Securities*

Certain U.S. government agencies and government-sponsored entities guarantee the timely payment of principal and interest with the backing of the full faith and credit of the U.S. government. Such agencies and entities include The Federal Financing Bank (FFB), the Government National Mortgage Association (Ginnie Mae), the Veterans Administration (VA), the Federal Housing Administration (FHA), the Export-Import Bank (Exim Bank), the Overseas Private Investment Corporation (OPIC), the Commodity Credit Corporation (CCC) and the Small Business Administration (SBA).

#### *Other Federal Agency Obligations*

Additional federal agency securities neither are direct obligations of, nor guaranteed by, the U.S. government. These obligations include securities issued by certain U.S. government agencies and government-sponsored entities. However, they generally involve some form of federal sponsorship: some operate under a government charter; specific types of collateral back some; the issuer's right to borrow from the Treasury supports some; and only the credit of the issuing government agency or entity supports others. These agencies and entities include, but are not limited to the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and the Tennessee Valley Authority and Federal Farm Credit Bank System.

On September 7, 2008, Freddie Mac and Fannie Mae were placed into conservatorship by their new regulator, the Federal Housing Finance Agency. Simultaneously, the U.S. Treasury made a commitment of indefinite duration to maintain the positive net worth of both firms.

### *Municipal Bonds*

Municipal bonds are debt obligations generally issued to obtain funds for various public purposes, including the construction of public facilities. Municipal bonds pay a lower rate of return than most other types of bonds. However, because of a municipal bond's tax-favored status, investors should compare the relative after-tax return to the after-tax return of other bonds, depending on the investor's

tax bracket. Investing in municipal bonds carries the same general risks as investing in bonds in general. Those risks include interest rate risk, reinvestment risk, inflation risk, market risk, call or redemption risk, credit risk, and liquidity and valuation risk. Investing in municipal bonds carries risk unique to these types of bonds, which may include:

### *Legislative Risk*

Legislative risk includes the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income.

### *Tax-Bracket Changes*

Municipal bonds generate tax-free income, and therefore pay lower interest rates than taxable bonds. Investors who anticipate a significant drop in their marginal income-tax rate may benefit from the higher yield available from taxable bonds.

### *Liquidity Risk*

The risk that investors may have difficulty finding a buyer when they want to sell and may be forced to sell at a significant discount to market value. Liquidity risk is greater for thinly traded securities such as lower-rated bonds, bonds that were part of a small issue, bonds that have recently had their credit rating downgraded or bonds sold by an infrequent issuer. Municipal bonds may be less liquid than other bonds.

### *Credit Risk*

Credit risk includes the risk that a borrower will be unable to make interest or principal payments when they are due and therefore default. To reduce investor concern, insurance policies that guarantee repayment in the event of default back many municipal bonds.

### *AMT*

MAI invests in a variety of fixed income securities for clients. For those accounts seeking preservation of capital and current income exempt from taxation, MAI may avoid municipal bonds subject to the Alternative Minimum Tax ("AMT").

### *General Obligation vs. Revenue Bonds*

Typically, investors consider General Obligation bonds to be safer than Revenue bonds since the full faith and credit of the issuer backs the interest and principal payments. With revenue bonds, the interest and principal are dependent upon the revenues paid by users of the facility or service. Frequently the issuers of revenue bonds are either private sector corporations (e.g. hospitals) or entities that exist, often in local monopoly form, to provide a public service (e.g. power utilities or public transportation authorities). Consequently, the thought is that the consumer spending that provides the funding or income stream for revenue bond issuers may be more vulnerable to changes in consumer tastes or a general economic downturn compared to a state or city's ability to raise taxes to pay for its General Obligation commitments.

*Municipal Bonds of a Particular State*

Municipal bonds are debt obligations generally issued to obtain funds for various public purposes, including the construction of public facilities. Securities issued by particular state municipalities are more susceptible to factors adversely affecting issuers of those state's securities.

*Pass-through Securities*

MAI may invest client's accounts in various debt obligations backed by pools of mortgages or other assets including, but not limited to, loans on single family residences, home equity loans, mortgages on commercial buildings, credit card receivables and leases on airplanes or other equipment. Principal and interest payments made on the underlying asset pools backing these obligations typically pass through to investors, net of any fees paid to any insurer or any guarantor of the securities. Pass-through securities may have either fixed or adjustable coupons. These securities include:

*Mortgage-Backed Securities*

U.S. government agencies and government-sponsored entities, such as Ginnie Mae, Fannie Mae, and Freddie Mac, and private entities issue mortgage-backed securities. The payment of interest and principal on mortgage-backed obligations issued by U.S. government agencies may be guaranteed by the full faith and credit of the U.S. government (in the case of Ginnie Mae), or may be guaranteed by the issuer (in the case of Fannie Mae and Freddie Mac). However, these guarantees do not apply to the market prices and yields of these securities, which vary with changes in interest rates.

Private entities that issue mortgage-backed securities structure them similarly to those issued by U.S. government agencies. However, government agencies do not guarantee the mortgage-backed securities or the underlying mortgages issued by private entities. The structure of these securities generally includes one or more types of credit enhancements such as insurance or letters of credit issued by private companies. Mortgage-backed securities generally permit borrowers to prepay their underlying mortgages. Prepayments can alter the effective maturity of these instruments.

*Collateralized Mortgage Obligations (CMOS)*

A pool of mortgages or mortgage loans backs a CMO, which are divided into two or more separate bond issues. Agency mortgages back CMOs issued by U.S. government agencies, while either government agency mortgages or private mortgages back privately issued CMOs. Payments of principal and interest pass through to each bond issue at varying schedules resulting in bonds with different coupons, effective maturities, and sensitivities to interest rates. Issuers may structure CMOs to magnify the impact of changing prepayment rates on the effective maturities of certain issues of these securities when interest rates change. CMOs may be less liquid or may exhibit greater price volatility than other types of mortgage or asset-backed securities.

*Inflation-indexed Bonds*

MAI may invest for client accounts in inflation-indexed bonds issued by governments, their agencies or instrumentalities and corporations. The principal amount of an inflation-indexed bond adjusts to changes in the level of the consumer price index. In the case of U.S. Treasury inflation-indexed bonds, the U.S. Government guarantees the repayment of the original bond principal upon maturity (as adjusted for inflation). Therefore, the principal amount of such bonds cannot fall below par even during

a period of deflation. However, the current market value of these bonds is not guaranteed and will fluctuate, reflecting the rise and fall of yields. In certain jurisdictions outside the United States the repayment of the original bond principal upon the maturity of an inflation-indexed bond is not guaranteed. This causes the amount of the bond repaid at maturity to be less than par. The interest rate for inflation-indexed bonds is fixed at issuance as a percentage of this adjustable principal. Accordingly, the actual interest income may both rise and fall as the principal amount of the bonds adjusts in response to movements of the consumer price index. For example, typically interest income would rise during a period of inflation and fall during a period of deflation.

### Securities with Equity and Debt Characteristics

Preferred stock is senior to common stock in the capitalization structure of companies. Preferred securities may be issued in perpetuity or have a call provision. Their dividend payments can be cumulative or non-cumulative. The risk factors of preferred stock generally include:

#### *Credit Risk*

Bankruptcy of the Issuer has the potential to cause a complete loss in value of preferred stock. Focusing on higher quality issues from firms with stronger balance sheets may help to mitigate this risk.

#### *Liquidity Risk*

The lack of volume in this market is one of the reasons why this opportunity exists. It is possible that the issues may have to be held for years to realize the total return objective.

#### *Interest Rate Risk*

Like fixed income securities, preferred stock has exposure to changes in interest rates. Purchasing high yielding preferred stock may result in the security remaining attractive even if the securities themselves are not readily liquidated and may mitigate the interest rate risk.

### Real Estate Investment Trusts

MAI may invest for client accounts in securities issued by real estate investment trusts (REITs), which primarily invest in real estate or real estate-related loans. Equity REITs own real estate properties, while mortgage REITs hold construction, development and/or long-term mortgage loans. Changes in the value of the underlying property of the trusts, the creditworthiness of the issuer, property taxes, interest rates, tax laws, and regulatory requirements, such as those relating to the environment all can affect the values of REITs. Both types of REITs are dependent upon management skill, the cash flows generated by their holdings, the real estate market in general, and the possibility of failing to qualify for any applicable pass-through tax treatment or failing to maintain any applicable exemptive status afforded under relevant laws.

### Private Funds

A private fund is an investment vehicle that pools capital from a number of investors and invests in securities and other instruments. In almost all cases, a private fund is a private investment vehicle that is typically not registered under federal or state securities laws. So that private funds do not have to register under these laws, issuers make the funds available only to certain sophisticated or accredited investors and cannot be offered or sold to the general public. Private funds are generally smaller than

mutual funds because they are often limited to a small number of investors and have a more limited number of eligible investors. Many but not all private funds use leverage as part of their investment strategies. Private funds management fees typically include a base management fee along with a performance component. In many cases, the fund's managers may become "partners" with their clients by making personal investments of their own assets in the fund. Most private funds offer their securities by providing an offering memorandum or private placement memorandum, known as "PPM" for short. Each private fund comes with its own set of unique risks. The PPM covers important information, including risks specific to that fund. Investors should review this document carefully and should consider conducting additional due diligence before investing in the private fund. The primary risks of private funds include the following:

1. Private funds do not sell publicly and are therefore illiquid. An investor may not be able to exit a private fund or sell its interests in the fund before the fund closes.
2. Private funds are subject to various other risks, including risks associated with the types of securities that the private fund invests in or the type of business issuing the private placement.

### *Tax Risk*

Private funds can be pass-through entities, passing earnings through to the limited partners. Investors must be aware that there are potentially significant tax implications of investing in private funds and they should consult with their tax advisor before investing in these securities. In addition, investors receive a Schedule K-1 which may delay the filing of tax returns. If an extension is required because a K-1 is issued after April 15, the cost of the tax preparation may increase as it is an additional service and adds time to the tax compliance process.

### *American Depositary Receipts (ADRs)*

An ADR is a stock that trades in the United States but represents a specified number of shares in a foreign corporation. Investors buy and sell ADRs on American markets just like regular stocks. Banks and brokerage firms issue/sponsor ADRs. ADRs are subject to additional risks of investing in foreign securities, including, but not limited to, less complete financial information available about foreign issuers, less market liquidity, more market volatility, and political instability. In addition, currency exchange-rate fluctuations affect the U.S. dollar-value of foreign holdings. Some ADRs and ordinary shares of foreign securities pay dividends, and many foreign countries impose dividend withholding taxes up to 30%. Depending on a custodian's ability to reclaim any withheld foreign taxes on dividends, taxable accounts may be able to recoup a portion of these taxes by use of the foreign tax credit. However, tax-exempt accounts, to the extent they pay any foreign withholding taxes, may not be able to utilize the foreign tax credit. Therefore, investors may be unable to recover any foreign taxes withheld on dividends of foreign securities or ADRs.

### *Global Depositary Receipt (GDRs)*

A GDR is a certificate that represents an ownership interest in the ordinary shares of the stock of a company, but that are marketed outside of the company's home country to increase its visibility in the world market and to access a greater amount of investment capital in other countries. Depositary receipts are structured to resemble typical stocks on the exchanges that they trade so that foreigners



can buy an interest in the company without worrying about differences in currency, accounting practices, or language barriers, or be concerned about the other risks in investing in foreign stock directly.

### Cash and Cash Equivalents

The account may hold cash or invest in cash equivalents. Cash equivalents include:

1. commercial paper (for example, short-term notes with maturities typically up to 12 months in length issued by corporations, governmental bodies or bank/corporation sponsored conduits (asset-backed commercial paper));
2. short-term bank obligations (for example, bank notes, certificates of deposit, or bankers' acceptances (time drafts on a commercial bank where the bank accepts an irrevocable obligation to pay at maturity));
3. savings association and savings bank obligations (for example, bank notes and certificates of deposit issued by savings banks or savings associations);
4. securities of the U.S. government, its agencies or instrumentalities that mature, or may be redeemed, in one year or less; and
5. corporate bonds and notes that mature, or that may be redeemed, in one year or less.

Cash and cash equivalents are the most liquid of investments. Cash and cash equivalents are considered very low-risk investments meaning, there is little risk of losing the principal investment. Typically, low risk also means low return and the interest an investor can earn on this type of investment is low relative to other types of investing vehicles.

### Master Limited Partnerships (MLPs)

MLPs are publicly traded partnerships that trade mainly on the New York Stock Exchange and/or the NASDAQ, the same as stocks. With a few exceptions, MLPs hold and operate assets related to the transportation and storage of energy (certain MLPs may have commodity risk). Most publicly traded companies are corporations. Corporate earnings are usually taxed twice. The business entity is taxed on any money it makes and then shareholders are taxed on the earnings the company distributes to them. In the 1980s, Congress allowed public trading of certain types of companies as partnerships instead of as corporations. The main advantage a partnership has over a corporation is that partnerships are “pass through” entities for tax purposes. This means that the company does not pay any tax on its earnings. Distributions are still taxed, but this avoids the problem of double taxation that most publicly traded companies face. Congress requires that any company designated as an MLP has to produce 90% of its earnings from “qualified resources” (natural resources and real estate). Most MLPs are involved in energy infrastructure, i.e. things like pipelines. MLPs are required to pay minimum quarterly distributions to limited partners. A contract establishes the payments, so distributions are predictable. Otherwise, the shareholders could find the company in breach of contract.

In addition to the normal risks associated with equity investments, e.g. price volatility, MLPs bear additional specialized risks:



*Risk of Regulation or Change*

The main advantage of an MLP is its tax-advantaged status under the current Internal Revenue Code. Therefore, changes in the tax code resulting in the loss of its preferential treatment could significantly affect the viability of MLP investments.

*Interest Rate Risk*

It is commonly thought that these types of investments do better when interest rates are low, making their yield higher in relation to the safest investments, such as Treasury bills and securities that are guaranteed by the U.S. government. Consequently, MLPs may perform better during periods of declining or relative low interest rates and more poorly during periods of rising or high interest rates.

*Tax Risk*

MLPs are pass-through entities, passing earnings through to the limited partners. Investors must be aware that there are potentially significant tax implications of investing in MLPs and they should consult with their tax advisor before investing in these securities. In addition, investors receive a Schedule K-1 which may delay the filing of tax returns. If an extension is required because a K-1 is issued after April 15, the cost of the tax preparation may increase as it is an additional service and adds time to the tax compliance process.

*Commodity Risk*

Commodity investments are subject to substantial fluctuation in the market price for product based upon, among other things, overall economic conditions or conditions related to war or disputes in various parts of the world, and are highly subject to unforeseen events or events not in control of MAI. Fluctuations in energy commodity prices would directly impact companies that own such energy commodities and could indirectly impact MLP companies that engage in transportation, storage, processing, distribution or marketing of such energy commodities.

**Financial Planning**

The financial planning tools MAI uses to create financial plans for clients rely on various assumptions, such as estimates of inflation, risk, economic conditions, and rates of return on security asset classes. All return assumptions use asset class returns, not returns of actual investments, and do not include fees or expenses that clients would pay if they invested in specific products.

Financial planning tools are used as a guide to help MAI and the client in developing an appropriate plan, and we cannot guarantee that clients will achieve the results shown in the plan. Results will vary based on the information provided by the client regarding the client's assets, risk tolerance, and personal information. Changes to underlying assumptions or differences in actual personal, economic, or market outcomes may result in materially different results for the client. Clients should carefully consider the assumptions and limitations of the financial planning tools and should discuss the results of the plan with a qualified investment professional before making any changes in their investment or financial planning program.

## ITEM 9 - DISCIPLINARY INFORMATION

MAI and our personnel seek to maintain the highest level of business professionalism, integrity, and ethics. MAI does not have any disciplinary information to disclose.

## ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

### Management Company

Effective January 1, 2010, a new management company named MAI Wealth Management, Inc. ("MAIW") was created. The company was formed to house all employees and to pay their salaries and benefits. A management agreement exists between MAIW and MAI in which MAI pays MAIW for the various services provided by the employees. MAI continues as the registered investment adviser.

### Adviser to Mutual Fund

MAI Capital Management, LLC serves as the investment adviser to the MAI Managed Volatility Fund (MAIPX/DIVPX), an open end mutual fund that is part of the Forum Family of Funds, and which is registered under the Investment Company Act of 1940. MAI is not affiliated with Forum Funds.

MAI may allocate to our clients shares of the MAI Managed Volatility Fund, in this case MAI will exclude those shares from billing on the investment account and will only receive compensation as adviser to the Fund.

### Unaffiliated Advisors

Wealth Partners Capital Group ("WPCG") holds an equity interest in MAI through its holding company Project 216 Acquisition, LLC ("216 Acquisition"). WPCG's equity interest in MAI is structured so that MAI maintains operational autonomy in managing its business. WPCG does not have any role in the day-to-day management of the MAI. WPCG also hold equity interests in certain other investment advisers ("Anchors"). In certain cases, Independent Managers selected by MAI may include Anchors. Each of the Anchors, including MAI, operates autonomously and independently of WPCG and of each other. None of WPCG or any Anchor has any involvement or influence in MAI's selection of Independent Managers. As such, WPCG's ownership interest in MAI does not, in MAI's view, present any potential conflict of interest for MAI's selection of Independent Managers or otherwise with respect to our clients. Please see *Item 14* below.

### Unaffiliated Insurance Agency

MAI has partnered with the Oswald Companies and McGowan PAE, both of Cleveland, Ohio, to be the preferred insurance brokers serving the needs of MAI clients. These companies have access to a large network of insurance brokers and providers, and independently conduct or facilitate insurance reviews for MAI clients as part of MAI's overall investment and wealth management services. This non-exclusive arrangement between the parties assures independent reviews, recommendations and placement of insurance products in which MAI has no financial interest and receives no commission or other remuneration. There are no affiliations between MAI and said insurance brokers. Although Oswald and



McGowan PAE are the preferred brokers under this arrangement, MAI may look to the services of other insurance brokers to conduct reviews and make recommendations. In all such cases MAI receives no commission or other remuneration from the sale of any insurance product.

## **Registered Representative of Unaffiliated Broker-Dealer**

Associated Persons of MAI are also registered securities representatives of a non-affiliated registered broker-dealer and a member of the Financial Industry Regulation Authority ("FINRA"). These Associated Persons maintain these registrations strictly in order to sell and market our proprietary mutual fund. Neither MAI nor any of these individuals receives any compensation or commissions for this activity.

## **Private Funds**

MAI serves as investment manager to certain investment-related limited liability companies and limited partnerships (the "Funds"). MAI, or affiliates of MAI, are also the general partner/managing member of the Funds. MAI Wealth GP, LLC, an Ohio limited liability company, serves as the General Partner of the MAI Managed Volatility Fund, L.P. Richard J. Buoncore is the Manager of MAI Wealth GP, LLC.

MAI Wealth Private Equity GP, LLC, a Delaware limited liability company, serves as the General Partner of MAI Wealth Private Equity Fund, L.P. The General Partner is controlled by Richard J. Buoncore of MAI and George T. Hubbard of Algonquin Advisors LLC.

MAI Wealth Opportunity GP, LLC, a Delaware limited liability company, serves as the General Partner of MAI Opportunity Fund, L.P. The General Partner is controlled by Richard J. Buoncore of MAI.

MAI Capital Income & Growth GP, LLC, a Delaware limited liability company, serves as the General Partner of MAI Capital Income and Growth Fund II, L.P. The General Partner is controlled by Richard J. Buoncore of MAI.

MAI Capital Income & Growth GP, III, LLC, a Delaware limited liability company, serves as the General Partner of MAI Capital Income and Growth Fund III, L.P. The General Partner is controlled by Richard J. Buoncore of MAI.

MAI Diversified Real Estate Income GP, LLC, a Delaware limited liability company, serves as the General Partner of MAI Diversified Real Estate Income Fund, L.P. The General Partner is controlled by Richard J. Buoncore of MAI.

MAI Capital Income & Growth GP IV, LLC, a Delaware limited liability company, serves as the General Partner of MAI Capital Income and Growth Fund IV, L.P. The General Partner is controlled by Richard J. Buoncore of MAI.

MAI Diversified Real Estate Income II GP, LLC, a Delaware limited liability company, serves as the General Partner of MAI Diversified Real Estate Income Fund II, L.P. The General Partner is controlled by Richard J. Buoncore of MAI.

MAI has an indirect interest in MAI-Oak Street GP, LLC, a Delaware limited liability company, which serves as the General Partner of MAI Wealth Income & Growth Fund, LP., a Delaware limited partnership ("Income and Growth Fund") that began operations in September 2013. The General Partner is controlled by MAI Wealth Capital Partners, LLC, a Delaware limited liability company owned by MAI, with Richard J. Buoncore serving as its president, and Oak Street Income and Growth, LLC. Pursuant to an investment advisory agreement, the investment manager of the Income and Growth Fund is Oak Street Real Estate Capital, LLC (SEC #801-77141), a Delaware limited liability company. Oak Street Real Estate Capital, LLC controls Oak Street Income and Growth, LLC.

The investment objective of the Income and Growth Fund is to invest in primarily triple-net properties under lease to investment grade tenants and debut & rising real estate fund managers. The Income and Growth Fund seeks to provide investors with a blend of current income from the triple net lease investments and upside potential through the debut & rising real estate fund managers.

MAI has a controlling interest in Clutterbuck Funds LLC, which is the General Partner of several private funds (the "Clutterbuck Funds"). MAI has entered into an agreement that allows MAI to be compensated for referring clients to invest in the Clutterbuck Funds. This referral relationship and ownership interest present a conflict of interest in that MAI receives a portion of the fees that referred clients pay to the Clutterbuck Funds and shares in the profits of Clutterbuck Funds LLC. To address this conflict, MAI will disclose this conflict to the client at the time of the referral.

The Funds and Clutterbuck Funds are not publicly offered or traded. The Funds and Clutterbuck Funds are only available to "Accredited Investors" as the term is defined by Rule 501 of the Securities Act of 1933. Investors in certain private funds that include a performance-based fee component must also meet the financial requirements of Rule 205-3 of the Investment Advisers Act of 1940. Those regulations generally provide that MAI may only offer interests in the fund to certain institutions, certain organizations, certain trusts, persons whose individual net worth (or joint net worth with their spouse) exceeds \$2,000,000, or persons who invest at least \$1,000,000 with us ("Qualified Clients"). The offering memorandum and subscription agreement (the "Offering Documents") provide additional information on these standards. Prospective investors in the Funds receive the Offering Documents. This Form ADV Part 2A Brochure is not an offer to sell, or a solicitation of an offer to purchase, membership interests in the Funds. Such an offer can only occur when the prospective investor receives the Offering Documents.

In addition to the Funds, MAI expects to continue to manage other client accounts, some of which have objectives similar to those of the Funds, including other collective investment vehicles which may be managed by the same General Partner ("GP") in which both the GP and MAI may have an equity interest.

Neither the GP nor MAI is obligated to devote any specific amount of time to the affairs of the Funds and is not required to accord exclusivity or priority to the Funds in the event of limited investment opportunities.

When MAI determines that it would be appropriate for the Funds and one or more other investment accounts to participate in an investment opportunity, MAI will seek to execute orders for all of the participating investment accounts on an equitable basis. If MAI has determined to invest at the same time for more than one of the investment accounts, MAI will generally place combined orders for all such accounts simultaneously and if all such orders are not filled at the same price, we will generally average the prices paid. Similarly, if an order on behalf of more than one account cannot be fully executed under prevailing market conditions, MAI will allocate the trade among the different accounts on a basis that we consider equitable. Situations may occur where the Funds could be disadvantaged because of the investment activities conducted by MAI for other investment accounts.

### **Research Service Provider**

MAI has entered into an agreement with Oak Street Real Estate Capital, LLC (Oak Street) pursuant to which MAI will provide certain research and due diligence services to Oak Street. These services may include, but are not limited to, review of the Oak Street's investment models, the provision of macroeconomic and credit analysis, new monitoring, deal sourcing and site visits. These services may benefit the underlying fund in which MAI Income and Growth Fund II, L.P. invests. For its services, MAI will be entitled to certain fees pursuant to the agreement; such fees will be paid by Oak Street and not chargeable to any fund Oak Street may manage or to any fund the MAI Income and Growth Fund II may invest.

MAI has entered into an agreement with an insurance consulting company, pursuant to which MAI will provide certain research including review of insurance policy structures and suitability for ultra high net worth clients. For its services, MAI will be entitled to certain fees pursuant to the agreement; such fees will not be based on MAI placing any insurance policy.

## **ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

MAI seeks to secure our reputation for integrity and professionalism, maintain the trust of our clients and ensure that our employees do not benefit personally from the short-term effects of their service to clients. In order to achieve these goals, MAI has adopted the MAI Code of Ethics (the "Code of Ethics"). All directors, officers and employees of MAI, as well as any other person who provides investment advice on behalf of MAI and is subject to MAI's supervision and control (collectively, "personnel") must abide by the Code of Ethics. The Code of Ethics imposes particular requirements and restrictions on the personal trading activity of our personnel, and prohibits them from engaging in certain outside activities without the prior approval of the Compliance Officer. In addition, the Code of Ethics prohibits the misuse of material nonpublic information by our personnel, and seeks to uphold general business ethics by prohibiting certain activities, such as engaging in outside activities and giving or receiving gifts, other than nominal gifts, to or from any person or other entity that does business, or proposes to do business,

with MAI or our affiliates without prior approval of the Compliance Officer. The Compliance Officer has the right to make exceptions when deemed appropriate.

All MAI supervised persons must certify to the Code of Ethics and report any violations of the Code of Ethics promptly to the Compliance Officer. MAI will furnish a copy of the Code of Ethics to any client or prospective client upon request by contacting the Chief Compliance Officer at (216) 920-4905.

### Insider Trading

MAI and our personnel may, from time to time, come into possession of material nonpublic and other confidential information which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, MAI and our personnel may be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any other person, regardless of whether such other person is a MAI client. Accordingly, should such persons come into possession of material nonpublic or other confidential information with respect to any company, they may be prohibited from communicating such information to, or using such information for the benefit of, their respective clients, and have no obligation or responsibility to disclose such information to, nor responsibility to use such information for the benefit of, their clients when following the provisions of the Code of Ethics designed to comply with laws prohibiting the improper disclosure or use of material nonpublic and other confidential information. Despite the circumstances described above, a client on its own initiative may direct MAI to place orders for specific securities transactions in a client account. As required by Section 204A of the Investment Advisers Act of 1940, the Code of Ethics prohibits the misuse of material nonpublic information by MAI and our officers, directors, and employees. Any officer, director, or employee of MAI who fails to observe this prohibition risks serious sanctions, including dismissal and personal liability. Additionally, MAI restricts its related persons from purchasing or selling the marketable securities of companies in which MAI's clients are deemed "insiders".

### Personal Trading Practices

MAI personnel may purchase or sell securities for themselves that we also recommend to clients. This includes related securities (e.g., warrants, options, or futures). This presents a potential conflict of interest as we may have an incentive to take investment opportunities from clients for our own benefit, favor our personal trades over client transactions when allocating trades, or to use the information about the transactions we intend to make for clients to our personal benefit by trading ahead of clients. To address these conflicts of interest, MAI's Code of Ethics imposes particular restrictions on MAI personnel with respect to transactions for their own accounts and accounts over which they have control or a beneficial interest. These restrictions include prohibitions on trading excessively, acting on investment opportunities before offering such opportunities first to clients, investing in initial public offers or private placements without prior approval of the Compliance Officer, and investing in securities on the restricted stock list maintained by MAI. Additionally, the Code of Ethics requires all MAI personnel to adhere to its pre-clearance policy regarding personal securities transactions and requires employees to report their respective securities transactions and holdings to the Chief Compliance Officer.

**Aggregation with Client Orders**

Transactions for each client's portfolio will generally be effected independently, unless MAI determines to purchase or sell securities for several clients at approximately the same time. MAI may purchase or sell securities in a batch transaction and allocate the batch to clients, funds and/or employees. This presents a potential conflict of interest as we may have an incentive to allocate more favorable executions to our own accounts or the accounts of our personnel. MAI may only aggregate transactions for clients, with funds and/or employees provided the allocation is done without favor to any one party. MAI employees are limited to participating only in fixed income batch transactions and only if all clients are able to get their full allocation.

When aggregating orders, no client is favored over any other client; each client participating in the aggregated order will participate at the average share price for all the transactions in that security by the block on a given business day, with transaction costs shared pro-rata based on each client's participation in the transaction. There may be more than one block of aggregated orders in a particular security on a given business day. Securities purchased or sold in a batched transaction are allocated pro-rata, when possible, to the participating client accounts in proportion to the size of the order placed for each account. MAI may, however, increase or decrease the amount of securities allocated to each account if necessary to avoid holding odd-lot or small numbers of shares for particular clients. Additionally, if MAI is unable to fully execute a batched transaction and MAI determines that it would be impractical to allocate a small number of securities among the accounts participating in the transaction pro-rata, MAI may allocate such securities in a manner determined in good faith to be a fair allocation.

**Participation or Interest in Client Transactions**

MAI acts as investment adviser to numerous client accounts. MAI may give advice and take action with respect to any accounts we manage, or for our own account, that may differ from action taken by MAI on behalf of other accounts. MAI is not obligated to recommend, buy or sell, or refrain from recommending, buying or selling, any security that MAI, or employees, may buy or sell for our or their own account or for the accounts of any other client. MAI is not obligated to refrain from investing in securities held by accounts that we manage except to the extent that such investment violates policies adopted by MAI. In a limited number of instances, MAI employees may act as Trustee at a client's request and with written permission of MAI. See **Item 15 – Custody** for more information on MAI employees acting as trustee for client trusts.

The following items represent situations where a conflict of interest may exist between the client and MAI and our personnel and discuss generally our policies for addressing those conflicts.

**Recommendations Involving Financial Interest**

MAI or our personnel may have financial interests in securities or investment products we recommend. Client portfolios may include the securities of companies in which MAI or our personnel have positions. MAI may manage the securities portfolios of our employee's pension plans and those of related companies on a discretionary basis following the same principles as other tax-exempt accounts. (See **Personal Trading Practices** above.)



### Interest in Investment Funds

MAI is the investment manager and general partner or managing member or has other economic interest to certain investment-related Limited Liability Companies, and Limited Partnerships (the “Funds”). MAI may suggest or recommend that clients purchase or sell the Funds managed by MAI. For more information on the Funds, see also **Items 4, 8, and 10**. MAI only recommends such securities to clients who meet the requisite income and/or net worth requirements and where MAI believes that the investment is appropriate for the client based on the client’s ability to accept the risk.

MAI earns or shares in the management fees for these funds; clients also pay MAI management fees on the assets MAI manages in their accounts. To avoid the conflict of clients paying MAI dual fees, all assets invested in these funds by MAI clients are excluded from the value of the client’s account for the calculation of MAI’s discretionary or non-discretionary management fees. The investment advisory fees that MAI receives from each of the MAI Funds are paid by the MAI Funds but are ultimately borne by fund members. Clients will receive the offering memorandum and full disclosure of all known risks before investing. In addition, MAI will disclose any proprietary interest in the company to the client.

### Cross Transactions

From time to time it may be advantageous to clients to execute one clients’ sale transaction by matching it with another clients’ purchase transaction. For example, such a cross transaction can save brokerage commissions and related transaction costs. We will only do this when the proposed transaction is in the best interests of both clients. We do not “dump” a security into a client’s portfolio just because another client needs to sell, nor do we decide to sell a security from one client’s account just because another client needs a similar security. Usually, this situation comes up with fixed income securities where we can get a better deal for both clients by crossing the security instead of going into the open market to complete separate transactions.

MAI will always execute such cross transactions through an independent broker-dealer acting as agent. The price for a cross transaction will be determined by an independent broker-dealer, and is usually the mid-point between the best bid and offer prices available for the size of the transaction. We will also take into account any additional fees charged to cross the security to ensure that the transaction is still appropriate for both clients.

MAI does not act as broker for any cross transactions effected for clients, and will never receive any commissions or other compensation for these trades (other than our normal advisory fees for managing the accounts). Portfolio managers will provide complete written details of a proposed cross transaction to our Chief Investment Officer who will provide written authorization for the transaction if he approves. MAI will maintain documentation of cross transactions in our books and records.

### Adviser to Mutual Fund

MAI acts as investment adviser to the MAI Managed Volatility Fund (MAIPX/DIVPX), a proprietary mutual fund. We may on a discretionary basis purchase this fund for our advisory clients. MAI receives fees for managing the mutual fund as well as fees for investment advisory services provided to clients, which could give us an incentive to invest advisory clients in these mutual funds so that we receive dual



fees. We recognize this conflict of interest, and to address it we exclude this mutual fund from the assets we manage when calculating the advisory fee so that we will not receive dual management fees.

### *Clients Having an Ownership Interest*

A small number of persons who are existing MAI clients, or who may in the future become MAI clients, either have or may acquire a non-controlling, passive ownership interest in MAI. In the performance of our investment advisory and management services, MAI makes no distinction between clients who may have such an ownership interest and any other clients. MAI's client relationships and services are at all times managed in accordance with the MAI Code of Ethics for the benefit of all clients. Nevertheless, by reason of a non-controlling ownership interest, a particular client may, as a practical matter, from time to time have the opportunity for access to MAI, our investment professionals and staff to a degree different from that available to other clients. In these circumstances, such a client may be advantaged as to support and administrative services in comparison to clients having no ownership position. Such an advantage, however, is unrelated to the performance of investment advisory and management services by MAI for all MAI clients.

## **ITEM 12 - BROKERAGE PRACTICES**

MAI may recommend that most of our clients establish brokerage accounts with Fidelity Brokerage Services, Inc. ("Fidelity"), a FINRA-registered broker-dealer, member SIPC, to maintain custody of client's assets and to effect trades for their accounts. Although MAI may recommend that clients establish accounts at Fidelity, it is the client's decision to custody assets with Fidelity. MAI is independently owned and operated and not affiliated with Fidelity. Factors considered by MAI in the recommendation of Fidelity include, but are not limited to, the reasonableness of their fees, product availability, research and other services available to both the client and MAI. For example, clients are not charged custodial fees, but instead Fidelity is compensated by account holders through commission or other transaction-related fees for securities trades that are executed through Fidelity or that settle into Fidelity accounts.

### **Factors Considered in Selecting Broker-Dealers for Client Transactions**

In selecting particular securities brokerage firms, dealers or banks ("investment firms"), MAI will consider the investment firm's execution capabilities, speed and efficiency, quality of services, among other factors. In selecting an investment firm, MAI will seek competitive bids and negotiate rates where possible, and clients may pay commissions in excess of those that another brokerage firm might charge for effecting the same transactions. MAI generally trades at market, and on occasion will use market limit orders.

When buying or selling securities in dealer markets, primarily fixed income securities, MAI generally prefers to deal directly with market makers in the securities who act for their own account as principal in the transaction. On these transactions, MAI may effect trades on a "net" basis, and will not pay the market maker any commission, commission equivalent or markup/markdown other than the "spread", that is, the difference between the price paid (or received) by MAI and the price received (or paid) by the market maker in trades with other broker-dealers or other customers.

Securities may also be purchased from underwriters at prices which include underwriting fees.

### Commission Rates or Equivalents Policy

For any particular portfolio transaction MAI will not necessarily select broker-dealers based on commission rates or seek competitive bids in advance for the most favorable commission rate. Although MAI generally seeks competitive commission rates on transactions where the client has not directed the selection of the broker-dealer, the account will not necessarily pay the lowest commission or commission equivalent.

The reasonableness of commissions is based on the broker's ability to provide professional services, competitive commission rates, research, and other services which will help MAI in providing investment management services to clients. MAI may, therefore, use a broker who provides useful research, custody and securities transaction services even though a lower commission may be charged by a broker who offers no research services and minimal custody or securities transaction assistance.

Orders for discretionary accounts will likely be placed before orders for non-discretionary accounts since it usually takes time for non-discretionary account clients to respond to MAI's recommendations.

### Best Execution

MAI seeks to obtain "best execution" of our clients' securities transactions. Best execution is achieved by well informed trade execution decisions made with the intention of maximizing client portfolios. This responsibility relates not only to the asset management process, but also to the management of direct and indirect costs associated with the use of intermediaries such as broker-dealer and Electronic Communications Networks (ECN's). MAI strives to execute each transaction in such a manner that the clients' total costs or proceeds in each transaction are the most favorable under the circumstances including securities executed by specified broker-dealer. MAI considers pricing, speed of execution and execution consistency among our criteria. MAI periodically and systematically evaluates the performance of brokers and dealers executing our clients' transactions.

### Limitation by Custodian

Prime brokerage arrangements are only available to accounts that meet the minimum net equity requirements established by the SEC. Custodian brokers may impose net equity requirements higher than those established by the SEC. Accounts held at Custodians that fall below the minimum required will not be able to participate in prime brokerage agreements and therefore all trades for those accounts will be placed with the accounts' Custodian. Custodian brokers may charge the client additional fees or higher trading costs for securities purchased from another broker-dealer and transferred to the client's account. MAI will consider this additional cost in relation to our duty to seek best execution for clients when we trade for these accounts. MAI may receive research benefits when executing trades with other broker-dealers through prime brokerage arrangements.

### Trading Errors

MAI has procedures in place to prevent trading errors, nevertheless, occasionally trade errors will still occur. Trading errors must be corrected so that the client does not suffer a loss from the error.

However, in calculating the amount of any loss to a client, MAI may take into account any tax savings or other monetary benefits the client may have received, so long as this practice and any resulting direct or indirect benefit to MAI is fully disclosed to the client in writing. If a gain has occurred before settlement date, MAI will recognize the gain and retain it for offsetting future errors. Retention of such gain constitutes a benefit for MAI derived from the management of client accounts, and as such represents a conflict of interest. For trade errors that occur within an account held at Fidelity, all gains that remain in MAI's error account at the end of a quarter, Fidelity donates to charity.

### Trade Rotation

It is MAI's fiduciary responsibility to ensure accounts are traded fairly and impartially. No account will receive preferential treatment over any other. For clients who are in a strategy, accounts will be traded in accordance with the following trade rotation procedure.

When trading a strategy or discretionary accounts within a strategy for multiple client accounts, MAI will follow a rotation process generally grouped by custodian or executing broker. When aggregating orders (block trades) each participating client must participate at the average share price (per custodian) for all transactions in that security in that block; unless changes in allocation are required by special circumstances such as odd-lot considerations and small numbers of securities.

When executing trades with "manual" or "non-electronic" custodians, the custodian will be placed in the trade rotation; however, MAI will not wait for the confirmation of order being filled, before moving on to the next custodian in the rotation.

### Research and Other Soft Dollar Benefits

In exercising our authority under client agreements, MAI may in our discretion direct brokerage transactions to securities broker-dealers with which we have arranged to receive research that we use in providing investment management services to our clients. Such arrangements are generally referred to as "soft dollar" arrangements, and enable MAI to obtain valuable proprietary or third-party research to supplement our own research in exchange for directed brokerage and the payment of brokerage commissions. In all cases, MAI has determined, or will determine, that the amount of commission charged by a broker-dealer with which we have such an arrangement is reasonable in relation to the value of the brokerage and research services provided, and the benefit to MAI clients as a result. Under such arrangements, clients may pay a higher brokerage commission than they might otherwise pay in the execution of transactions through a broker-dealer with which MAI has no arrangement for research services. Research services obtained by MAI may directly or indirectly benefit particular clients and may be used in connection with clients other than those making the payment of commissions. The majority of soft dollar credits is earned from transactions placed for the Managed Volatility strategy complex (over 70% of total credits earned). MAI does not attempt to assign or separately allocate relative costs or benefits of obtaining valuable research among clients.

Using brokerage commissions to obtain investment research services and to pay for expenses of MAI creates a conflict of interest between MAI and our clients and Funds, because the clients and Funds pay for such products and services that are not exclusively for them and that may benefit, primarily or

exclusively, MAI and /or, affiliates of MAI. To the extent that MAI is able to acquire these products and services without expending our own resources (including management fees paid by the Funds), MAI's use of "soft-dollars" would tend to increase MAI's profitability. In addition, the availability of these non-monetary benefits may influence us to select one broker rather than another to perform services.

From time to time, MAI may become a party to "soft dollar" arrangements with various brokerage firms, pursuant to which the cost of certain research and other services and products used by MAI or our affiliates is paid for with commissions generated by direct securities transactions for client accounts. MAI may also enter into arrangements with brokers to (i) have "soft dollar" credits rebated to the client accounts or to have commissions recaptured by the client accounts from which the credits or commissions were generated or (ii) use "soft dollars" to pay expenses otherwise payable by client accounts. Either of such uses of "soft dollars" would have the effect of enhancing the returns associated with such client accounts from the returns that would exist absent such uses. MAI reserves the right to change our soft dollar practices as provided herein.

In addition to research services, MAI may be offered other monetary or non-monetary benefits by brokers that we may engage to execute direct securities transactions on behalf of our clients. These benefits may take the form of special execution, clearance and settlement capabilities. Further, if a product or service obtained by MAI provides both research and non-research benefits, MAI may treat it as a "mixed use" item and pay for the non-research portion with cash.

In the use of soft dollars with regard to obtaining "mixed use" items or services, that is, items or services that may directly be used by MAI for its own purposes in addition to use for the benefit of clients, MAI makes an allocation in the payment for such items or services between soft dollars and hard dollars it pays. Although the allocation between soft dollars and hard dollars paid by MAI is made in good faith based on a reasonable assessment of how such mixed use items or services will be applied, MAI has a conflict of interest in making that determination to the extent there is an economic benefit in allocating a greater percentage of payment to soft dollars.

When engaging in direct securities transactions, MAI may pay broker commissions that are higher than another broker might have charged for the same transaction, in recognition of MAI's assessment of the value of the research and other services provided to MAI by the broker. However, MAI must believe that commission costs borne by client accounts are reasonable in relation to the overall services provided. The client account that bears the cost of such a commission for a particular trade will not necessarily be the sole beneficiary of such research. Subject to being satisfied that we are obtaining best execution, MAI may consider referrals of investors in selecting among brokers that otherwise satisfy MAI's selection criteria.

Specifically, MAI currently has soft dollar arrangements with Fidelity, Jefferies LLC, and Bloomberg. MAI uses soft dollars to purchase services such as Bloomberg, FactSet, TheStreet.com, Ned Davis Research, and Morningstar. MAI receives both proprietary and third-party research. Generally these research services are broad and benefit all clients.

*Other Benefits*

MAI has an arrangement with National Financial Services LLC, and Fidelity Brokerage Services LLC (together with all affiliates, "Fidelity") through which Fidelity provides MAI with Fidelity's "platform" services. The platform services include, among others, brokerage, custodial, administrative support, record keeping and related services that are intended to support intermediaries like MAI in conducting business and in serving the best interests of their clients but that may benefit MAI.

Fidelity charges brokerage commissions and transaction fees for effecting certain securities transactions (i.e., transactions fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions). Fidelity enables MAI to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Fidelity's commission rates are generally considered discounted from customary retail commission rates. However, the commissions and transaction fees charged by Fidelity may be higher or lower than those charged by other custodians and broker-dealers.

As part of the arrangement, Fidelity also makes available to MAI, at no additional charge to MAI, certain research and brokerage services, including research services obtained by Fidelity directly from independent research companies, as selected by MAI (within specified parameters). These research and brokerage services presently include services such as:

- provide access to client account data (such as trade confirmations and account statements);
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- provide research, pricing and other market data;
- facilitate payment of MAI's fees from our clients' accounts; and
- assist with back-office functions, recordkeeping and client reporting

and are used by us to manage accounts for which MAI has investment discretion.

MAI may also receive additional services which may include educational events or occasional business entertainment of MAI personnel. MAI will pay for any travel related expenses associated with such event. In evaluating whether to recommend that clients custody their assets at Fidelity, MAI may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors we consider and not solely the nature, cost or quality of custody and brokerage services provided by Fidelity, which may create a potential conflict of interest.

As a result of receiving such services for no additional cost, we may have an incentive to continue to use or expand the use of Fidelity's services. MAI examined this potential conflict of interest when it chose to enter into the relationship with Fidelity and has determined that the relationship is in the best interests of our clients and satisfies its client obligations, including its duty to seek best execution. A client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where MAI determines in good faith that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided,

execution capability, commission rates, and responsiveness. Accordingly, we will seek competitive rates, to the benefit of all clients; it may not necessarily obtain the lowest possible commission rates for specific client account transactions. Although the investment research products and services that may be obtained by us will generally be used to service all of MAI's clients, a brokerage commission paid by a specific client may be used to pay for research that is not used in managing that specific client's account. MAI and Fidelity are not affiliates, and no broker-dealer affiliated with MAI is involved in the relationship between MAI and Fidelity.

### *Brokerage for Client Referrals*

MAI participates in the Fidelity Wealth Advisor Solutions Program ("WAS Program"). Under the WAS Program, a Fidelity affiliate acts as a solicitor for MAI, and MAI pays referral fees for each referral who becomes a client of MAI. MAI is independent and not affiliated with Fidelity or its affiliates. To receive referrals from the WAS Program, MAI must meet certain minimum participation criteria, but MAI may have been selected for participation in the WAS Program as a result of our other business relationships with Fidelity and its affiliates; therefore, MAI may have an incentive to suggest that referred clients and their household members maintain custody of their accounts with Fidelity. However, participation in the WAS Program does not limit MAI's duty to select brokers on the basis of best execution. See **Item 14** below for additional information regarding the WAS Program.

### *Products and Services Available to Us from Schwab*

Schwab Advisor Services™ (formerly called Schwab Institutional®) is Schwab's business serving independent investment advisory firms like us. Schwab provides us and our clients with access to its institutional brokerage service (trading, custody, reporting, and related services) many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts; while others help us manage and grow our business. Schwab's support services generally are available on an unsolicited basis (we don't have to request them) and at no charge to us. Following is a more detailed description of Schwab's support services:

### *Services That Benefit You*

Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit you and your account.

### *Services That May Not Directly Benefit You*

Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may use this research to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting services.

Services that generally benefit only us. Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits, such as occasional business entertainment of our personnel.

### Directed Brokerage

Clients may direct MAI to use particular investment firms to execute portfolio transactions for their accounts. Where a client directs its brokerage, MAI may not be in a position where we can negotiate commission rates or spreads or obtain volume discounts and best price may not be achieved. If the client's investment firm is unable to effect particular transactions, MAI may select another investment firm to effect the transaction.

Where a client designates the brokerage firm through which transactions MAI is to effect transactions, MAI may not be able to negotiate reductions of commissions for the client's benefit. Client direction of brokerage to a particular brokerage firm may result in the client being unable to participate in orders aggregated with other MAI advisory clients. This could deprive the client from participating in volume discounts on batched orders. Additionally, broker custody of client assets can limit or eliminate MAI's ability to obtain best execution such as by placing orders with market-makers for OTC stock and bond transactions. Accordingly, directed transactions may be subject to price movements, particularly in volatile markets, that may result in the client receiving a price that is less favorable than the price obtained for the batched order. Under these circumstances, the direction by a client of a particular broker or dealer to execute transactions may result in higher or lower commissions, greater spreads, or more or less favorable net prices than might have been obtained if MAI were able to select the investment firm.

### **Aggregation and Allocation of Transactions**

We describe our aggregation practices in detail under **Item 11 -Aggregation with Client Orders** above.



## ITEM 13 - REVIEW OF ACCOUNTS

The Account Executives (“AEs”) and Wealth Managers (“WMs”) have the primary responsibility for obtaining information about the client’s income needs, investment time horizon, legal constraints and other relevant investment factors. The assigned AEs or WMs are responsible for identifying the client’s investment objective and for communicating those objectives to the Portfolio Managers (“PMs”). Within the confines of MAI’s investment philosophy, individual client portfolios are structured to seek to meet the objectives of each client. When a client does not have wealth management services and therefore no AE or WM, the PM is responsible for obtaining the information from the client and identifies the client’s investment objective.

All client portfolios under management are reviewed at least annually by a WM or PM, and clients usually receive a performance report quarterly, but may select to receive reports semi-annually, annually or upon request. New investment, tax or other developments may result in new or revised recommendations. New circumstances, or changes in client objectives, can trigger a portfolio review by the team (AE, WM, and/or PM).

In addition to reports and other reviews, MAI Portfolio Managers are available to clients through phone contacts or client meetings to assist in the development of an investment plan, and to receive, request or consider specific investment recommendations.

AEs and WMs are available to wealth management clients through phone contacts or client meetings to assist in the development of a financial plan. AEs/WMs have primary responsibility for reviewing each client’s management report on, at minimum, an annual basis. AEs/WMs generally review the financial status annually, although individual client needs or requests or other developments may trigger a review at a different time. Full service clients may receive a management report as part of their overall service once per year. Management reports may include information on a client’s net worth, investment portfolio, income tax projection, discretionary funds statement, estate tax summary with estate plan of asset distribution and insurance summaries of property and casualty coverage, life and disability and long-term care. MAI may also provide certain wealth management clients updated reports as appropriate.

## ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION

### Referral Arrangements

MAI may enter into agreements with affiliates or non-affiliates to solicit clients for MAI or investors for the Funds managed by MAI or an affiliate. For their solicitation services they may receive commissions, a percentage of MAI’s management and/or performance fees, or professional services fees. Any such arrangements will comply with the Investment Advisers Act of 1940 and Rule 206(4)-3.

From time to time, Wealth Partners Capital Group may refer prospective clients to MAI, who may become clients of the MAI. MAI does not compensate WPCG for any such referrals. Please see **Item 10** above.



### Fidelity Wealth Advisor Solutions Program

MAI participates in the Fidelity Wealth Advisor Solutions Program (the “WAS Program”), through which MAI receives referrals from Strategic Advisers, Inc. (“SAI”), a registered investment adviser and subsidiary of FMR LLC, the parent company of Fidelity Investments. MAI is independent and not affiliated with SAI or FMR LLC. SAI does not supervise or control MAI, and SAI has no responsibility or oversight for MAI’s provision of investment management or other advisory services.

Under the WAS Program, SAI acts as a solicitor for MAI, and MAI pays referral fees to SAI for each referral received based on MAI’s assets under management attributable to each client referred by SAI or members of each client’s household. The WAS Program is designed to help investors find an independent investment advisor, and any referral from SAI to MAI does not constitute a recommendation or endorsement by SAI of MAI’s particular investment management services or strategies. More specifically, MAI pays the following amounts to SAI for referrals: for referrals made prior to April 1, 2017, an annual percentage of 0.20% of any and all assets in client accounts; for referrals made after April 1, 2017, the sum of (i) an annual percentage of 0.10% of any and all assets in client accounts where such assets are identified as “fixed income” assets by SAI and (ii) an annual percentage of 0.25% of all other assets held in client accounts. For referrals made prior to April 1, 2017, these fees are payable for a maximum of seven years. Fees with respect to referrals made after that date are not subject to the seven year limitation. In addition, MAI has agreed to pay SAI a minimum annual fee amount in connection with its participation in the WAS Program. These referral fees are paid by MAI and not the client.

To receive referrals from the WAS Program, MAI must meet certain minimum participation criteria, but MAI may have been selected for participation in the WAS Program as a result of our other business relationships with SAI and its affiliates, including Fidelity Brokerage Services, LLC (“FBS”). As a result of our participation in the WAS Program, MAI may have a potential conflict of interest with respect to our decision to use certain affiliates of SAI, including FBS, for execution, custody and clearing for certain client accounts, and MAI may have a potential incentive to suggest the use of FBS and its affiliates to our advisory clients, whether or not those clients were referred to MAI as part of the WAS Program. Under an agreement with SAI, MAI has agreed that MAI will not charge clients more than the standard range of advisory fees disclosed in our Form ADV 2A Brochure to cover solicitation fees paid to SAI as part of the WAS Program. Pursuant to these arrangements, MAI has agreed not to solicit clients to transfer their brokerage accounts from affiliates of SAI or establish brokerage accounts at other custodians for referred clients other than when MAI’s fiduciary duties would so require, and MAI has agreed to pay SAI a one-time fee equal to 0.75% of the assets in a client account that is transferred from SAI’s affiliates to another custodian; therefore, MAI may have an incentive to suggest that referred clients and their household members maintain custody of their accounts with affiliates of SAI. However, participation in the WAS Program does not limit MAI’s duty to select brokers on the basis of best execution.

### Preferred Partner

Certain firms may identify MAI as a preferred partner. MAI receives no compensation for such identification.

MAI may receive compensation from IMG when we provide investment advice and financial planning services to certain clients of IMC and IMG Worldwide. In these cases, at a minimum, IMG pays MAI the difference between the amount such clients pay MAI and the actual cost of such services.

## ITEM 15 - CUSTODY

MAI has custody of certain clients' assets, such as when an employee of MAI is a trustee on a client's account, a client authorizes a Standing Letter of Authorization with their custodian where the third-party is a related party of MAI (an MAI Fund), or when a client grants MAI check writing authority or general power of attorney on accounts.

MAI has put controls in place, in compliance with federal rules, to protect clients' assets over which we have custody. An independent qualified custodian (generally a broker-dealer, bank, trust company, or other financial institution) holds each client's assets – MAI does not act as custodian for any client. The custodian, at least quarterly, sends account statements directly to the client or client's independent representative. In addition, an independent accountant conducts annual surprise examinations of client accounts over which MAI has custody.

MAI also has custody of the assets of the Funds. MAI, as the managing member or general partner and investment manager of the funds, has the ability to request funds from the custodian out of the accounts. MAI has put controls in place, in compliance with federal rules, to protect clients' assets in the funds. A qualified custodian holds the fund's assets. In addition, an independent accountant audits the accounts each year, and we send copies of the audited financial statements to all investors in the funds. An independent accountant will also audit the fund upon liquidation.

MAI also has limited custody of our clients' funds or securities when the clients authorize us to deduct our management fees directly from the client's account. A qualified custodian (generally a broker-dealer, bank, trust company, or other financial institution) holds clients' funds and securities. **Clients will receive statements directly from your qualified custodian at least quarterly.** The statements will reflect the client's funds and securities held with the qualified custodian as well as any transactions that occurred in the account, including the deduction of MAI's fee. Clients should carefully review the account statements you receive from your qualified custodian. When clients receive statements from MAI as well as from the qualified custodian, clients should compare these two reports carefully. Clients with any questions about your statements should contact us at the address or phone number on the cover of this brochure. Clients who do not receive their statement from your qualified custodian at least quarterly should also notify us.

## ITEM 16 - INVESTMENT DISCRETION

With respect to our discretionary clients and the Funds, MAI is authorized to make the following determinations in accordance with the client's specified investment objectives without consulting client or obtaining the client's consent before effecting a transaction:

- Which securities to buy or sell.

- The total amount of securities to buy or sell.
- The broker or dealer through whom securities are bought or sold.
- The commission rates at which to effect securities transactions for client accounts.
- The prices at which to buy or sell securities, which may include dealer spreads or mark-ups and transaction costs.

For discretionary accounts, members of the Investment Committee set investment guidelines, and the Portfolio Managers make the investment decision within guidelines established and in accordance with the client's investment objectives and may consult with the client's Account Executive or Wealth Manager. There are exceptions to MAI's investment discretion. Clients may prohibit the purchase of certain specific securities or securities from a specific industry. Client guidelines may also contain limits on the amount of securities to be bought or sold, or prohibit the purchase of certain types of securities if the purchase would cause the holdings of such securities to exceed a designated percentage of the value of the account.

See also **Item 4 - Tailored Services and Client Imposed Restrictions** and **Item – 12 Brokerage Practices**, above.

## ITEM 17 - VOTING CLIENT SECURITIES

### Proxy Voting

MAI has adopted a Proxy Voting and Disclosure Policy that is designed to reflect MAI's commitment to vote proxies in the best interest of clients and in accordance with Rule 206(4)-6 under the Advisers Act. Although MAI does vote proxies for a limited number of clients (such as mutual funds we manage and other pooled investments), MAI's general policy is not to accept responsibility for voting proxies absent special circumstances. In cases where MAI does, however, accept responsibility for voting proxies for a particular client, we will make proxy voting decisions for that security on a case-by-case basis as described below.

MAI believes that each proxy proposal should be individually reviewed to determine whether the proposal is in the best interests of our clients. MAI has developed procedures for voting proxies that generally require MAI's Proxy Committee Chairman and/or the Proxy Committee to review all proxy solicitation materials and vote the proxies in accordance with the voting guidelines set forth in the policy. Generally, MAI does not permit clients to direct our vote in a particular solicitation. To implement MAI's proxy voting policies, MAI has engaged Broadridge's ProxyEdge platform to vote and maintain records of all proxies.

Occasionally, we may have a conflict of interest in voting proxies. For example, when a portfolio company is a client or an affiliate of a client of MAI or a vote may impact the compensation payable to MAI in a manner adverse to client's interests. In cases where MAI is aware of a conflict between the interests of a client and the interests of MAI or an affiliated person of MAI, MAI will notify the client of such conflict and will vote the client's shares in accordance with the client's instructions. In the event that MAI does not receive instructions from the client within three business days after the notice, MAI



may abstain from voting or vote the proxy in what we believe (in our sole discretion) is the client's best interests.

At any time, clients may contact us to request information about how we voted your proxies for your securities or to get a copy of our Proxy Voting and Disclosure Policy. You can obtain this information by submitting a written request to us at: MAI Capital Management, LLC, Attn: Proxy Chairman, 1360 E. 9th St., Suite 1100, Cleveland, OH 44114. MAI will provide the information or a copy of this policy within a reasonable amount of time.

For clients where MAI does not have the authority to vote client securities, clients will receive their proxies or other solicitations directly from their custodian or a transfer agent. Clients may call us if they have questions about a particular solicitation, but MAI will not be deemed to have proxy voting authority solely as a result of providing advice or information about a particular proxy vote to a client.

### *Class Actions*

MAI does not instruct or give advice to clients on whether or not to participate as a member of class action lawsuits and will not automatically file claims on the client's behalf. However, if a client notifies us that they wish to participate in a class action, we will assist the client in determining if the client is eligible to participate and provide the client with any transaction information that may be needed in order for the client to file a proof of claim. The client must make the decision on whether to participate in the claim, complete the claim form, and send it in.

## **ITEM 18 - FINANCIAL INFORMATION**

Registered investment advisers are required in this item to provide clients with certain financial information or disclosures about the firm's financial condition. MAI does not require the prepayment of more than \$1,200 in fees per client, six months or more in advance, and does not foresee any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.