



# Brightwater Advisory

*A Registered Investment Adviser*

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This brochure provides information about the qualifications and business practices of Brightwater Advisory, LLC (hereinafter “Brightwater” or the “Firm”). If you have any questions about the contents of this brochure, please contact the Firm at the telephone number listed above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Additional information about the Firm is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The Firm is a registered investment adviser. Registration does not imply any level of skill or training.

**Item 2. Material Changes**

In this Item, Brightwater is required to discuss any material changes that have been made to the brochure since the last annual amendment dated March 26, 2018. The Firm has updated Item 12 with respect to benefits it receives from Charles Schwab & Co, Inc. The Firm has no other changes to disclose in relation to this Item.

**Item 3. Table of Contents**

Item 2. Material Changes.....	2
Item 3. Table of Contents .....	3
Item 4. Advisory Business.....	4
Item 5. Fees and Compensation.....	6
Item 6. Performance-Based Fees and Side-by-Side Management .....	8
Item 7. Types of Clients .....	8
Item 8. Methods of Analysis, Investment Strategies and Risk of Loss.....	9
Item 9. Disciplinary Information .....	12
Item 10. Other Financial Industry Activities and Affiliations .....	12
Item 11. Code of Ethics .....	13
Item 12. Brokerage Practices .....	14
Item 13. Review of Accounts .....	17
Item 14. Client Referrals and Other Compensation.....	18
Item 15. Custody.....	18
Item 16. Investment Discretion.....	19
Item 17. Voting Client Securities .....	19
Item 18. Financial Information .....	20

## Item 4. Advisory Business

Brightwater, which also conducts business as Tampa Asset Management, offers a variety of advisory services, which include financial planning, consulting, and investment management services. Prior to Brightwater rendering any of the foregoing advisory services, clients are required to enter into one or more written agreements with Brightwater setting forth the relevant terms and conditions of the advisory relationship (the “Advisory Agreement”).

Brightwater was formed in 2013 and is wholly owned by David C. Maddux and Kathleen N. Maddux. As of January 01, 2018, Brightwater had \$176,708,743 of assets under management, \$171,031,681 of which was managed on a discretionary basis and \$5,677,062 of which was managed on a non-discretionary basis.

While this brochure generally describes the business of Brightwater, certain sections also discuss the activities of its Supervised Persons, which refer to the Firm’s officers, partners, directors (or other persons occupying a similar status or performing similar functions), employees or any other person who provides investment advice on Brightwater’s behalf and is subject to the Firm’s supervision or control.

### **Investment and Wealth Management Services**

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Brightwater manages client investment portfolios on a discretionary or non-discretionary basis. In addition, Brightwater provides certain clients with wealth management services which includes as discretionary and/or non-discretionary management of investment portfolios, as well as certain financial planning and consulting services (as described below).

In managing client portfolios, Brightwater primarily allocates client assets among various mutual funds, exchange-traded funds (“ETFs”), individual debt and equity securities, and/or certificates of deposit in accordance with their stated investment objectives.

Where appropriate, the Firm also provides advice about any type of legacy position or other investment held in client portfolios. Clients can engage Brightwater to manage and/or advise on certain investment products that are not maintained at their primary custodian, such as variable life insurance and annuity contracts and assets held in employer sponsored retirement plans and qualified tuition plans (i.e., 529 plans). In these situations, Brightwater directs or recommends the allocation of client assets among the various investment options available with the product. These assets are generally maintained at the underwriting insurance company or the custodian designated by the product’s provider.

Brightwater tailors its investment management services to meet the needs of its individual clients and seeks to ensure, on a continuous basis, that client portfolios are managed in a manner consistent with those needs and objectives. Brightwater consults with clients on an initial and ongoing basis to assess their specific risk tolerance, time horizon, liquidity constraints and other related factors relevant to the management of their portfolios. Clients are advised to promptly notify Brightwater if there are changes in their financial situation

or if they wish to place any limitations on the management of their portfolios. Clients can impose reasonable restrictions or mandates on the management of their accounts if Brightwater determines, in its sole discretion, the conditions would not materially impact the performance of a management strategy or prove overly burdensome to the Firm's management efforts.

### **Sponsor and Manager of Wrap Program**

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Brightwater provides also provides investment management services as the sponsor and manager of the Brightwater Advisory Wrap Fee Program (the "Wrap Program"), a wrap fee program (i.e., an arrangement where brokerage commissions and transaction costs are absorbed by the Firm), in order to simplify the payment of management fees and brokerage expenses. Accounts managed through the Wrap Program are done so in substantially the same manner as those managed under a non-wrap arrangement. Participants in the Wrap Program may pay a higher aggregate fee than if investment management and brokerage services are purchased separately. Additional information about the Wrap Program is available in Brightwater's Wrap Brochure, which appears as Part 2A Appendix 1 of the Firm's Form ADV.

### **Financial Planning and Consulting Services**

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Brightwater offers clients a broad range of financial planning and consulting services, which includes any or all of the following functions:

- Business Planning;
- Cash Flow Forecasting;
- Trust and Estate Planning;
- Financial Reporting;
- Investment Consulting
- Insurance Planning;
- Retirement Planning;
- Risk Management;
- Charitable Giving;
- Distribution Planning;
- Tax Planning; and
- Manager Due Diligence.

In performing these services, Brightwater is not required to verify any information received from the client or from the client's other professionals (e.g., attorneys, accountants, etc.) and is expressly authorized to rely on such information. Brightwater recommends certain clients engage the Firm for additional related service and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists for the Firm to recommend that clients engage Brightwater or its affiliates to provide (or continue to provide) additional services for compensation, including investment management services. Clients retain absolute discretion over all decisions regarding implementation and are under no obligation to act upon any of the recommendations made by Brightwater. Clients are advised that it remains their responsibility to promptly notify the Firm of any change in their financial situation or investment objectives for the purpose of reviewing, evaluating or revising Brightwater's recommendations and/or services.

## Item 5. Fees and Compensation

Brightwater offers services on a fee basis, which includes fixed and/or hourly fees, as well as fees based upon assets under management or advisement or the performance of the account.

### Investment Management and Wealth Management Fees

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Brightwater offers its investment management and wealth management services for an annual fee based on the amount of assets under the Firm's management.

For accounts managed as part of the Wrap Program, this management fee varies between 100 and 150 basis points (1.00 % – 1.50 %) in accordance with the following blended fee schedule:

<u>PORTFOLIO VALUE</u>	<u>BASE FEE</u>
First \$500,000	1.50%
Above \$500,000	1.00%

For accounts managed outside of the Wrap Program, this management fee varies between 90 and 135 basis points (0.90% - 1.35%) in accordance with the following blended fee schedule:

<u>PORTFOLIO VALUE</u>	<u>BASE FEE</u>
First \$500,000	1.35%
Above \$500,000	0.90%

The annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by Brightwater on the last day of the previous billing period.

If assets in excess of \$25,000 are deposited into or withdrawn from an account after the inception of a billing period, the fee payable with respect to such assets is adjusted to reflect the interim change in portfolio value. For the initial period of an engagement, the fee is calculated on a *pro rata* basis. In the event the advisory agreement is terminated, the fee for the final billing period is prorated through the effective date of the termination and the outstanding or unearned portion of the fee is charged or refunded to the client, as appropriate.

Additionally, for asset management services the Firm provides with respect to certain client holdings (e.g., held-away assets, accommodation accounts, alternative investments, etc.), Brightwater may negotiate a fee rate that differs from the range set forth above.

### **Financial Planning and Consulting Fees**

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Brightwater generally provides its Financial Planning Services in conjunction with discretionary or non-discretionary portfolio management as part of its Wealth Management Services. In limited circumstances, Brightwater offers consulting services on a stand-alone basis through separate Agreement. In doing so, Brightwater charges a fixed fee or hourly fee under a stand-alone engagement. These fees are negotiable, but range from \$400 to \$3,000 on a fixed fee basis and from \$200 to \$400 on an hourly basis, depending upon the scope and complexity of the services and the professional rendering the financial planning and/or the consulting services. If the client engages the Firm for additional investment advisory services, Brightwater may offset all or a portion of its fees for those services based upon the amount paid for the financial planning and/or consulting services.

The terms and conditions of the financial planning and/or consulting engagement are set forth in the Advisory Agreement and Brightwater requires one-half of the fee (estimated hourly or fixed) payable upon execution of the Advisory Agreement. The outstanding balance is due upon delivery of the financial plan or completion of the agreed upon services. The Firm does not, however, take receipt of \$1,200 or more in prepaid fees in excess of six months in advance of services rendered.

### **Fee Discretion**

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Brightwater may, in its sole discretion, negotiate to charge a lesser fee based upon certain criteria, such as anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing/legacy client relationship, account retention and pro bono activities.

### **Additional Fees and Expenses**

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In addition to the advisory fees paid to Brightwater, clients also incur certain charges imposed by other third parties, such as broker-dealers, custodians, trust companies, banks and other financial institutions (collectively “Financial Institutions”). These additional charges include securities brokerage commissions, transaction fees, custodial fees, charges imposed directly by a mutual fund or ETF in a client’s account, as disclosed in the fund’s prospectus (*e.g.*, fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. The Firm’s brokerage practices are described at length in Item 12, below.

**Direct Fee Debit**

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Clients provide Brightwater with the authority to directly debit their accounts for payment of the investment advisory fees. The Financial Institutions that act as the qualified custodian for client accounts, from which the Firm retains the authority to directly deduct fees, have agreed to send statements to clients not less than quarterly detailing all account transactions, including any amounts paid to Brightwater. Alternatively, clients may elect to have Brightwater send a separate invoice for direct payment.

**Account Additions and Withdrawals**

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Clients can make additions to and withdrawals from their account at any time, subject to Brightwater's right to terminate an account. Additions can be in cash or securities provided that the Firm reserves the right to liquidate any transferred securities or declines to accept particular securities into a client's account. Clients can withdraw account assets on notice to Brightwater, subject to the usual and customary securities settlement procedures. However, the Firm designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. Brightwater may consult with its clients about the options and implications of transferring securities. Clients are advised that when transferred securities are liquidated, they may be subject to transaction fees, short-term redemption fees, fees assessed at the mutual fund level (e.g., contingent deferred sales charges) and/or tax ramifications.

**Item 6. Performance-Based Fees and Side-by-Side Management**

Brightwater does not provide any services for a performance-based fee (i.e., a fee based on a share of capital gains or capital appreciation of a client's assets).

**Item 7. Types of Clients**

Brightwater offers services to individuals, charitable organizations, corporations and business entities.



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

### Methods of Analysis

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Brightwater's primary method of analysis is fundamental in nature. Fundamental analysis involves assessing valuation metrics, the economic and political conditions that affect the overall trends of the markets. Brightwater analyzes macroeconomic and political factors that it believes may influence market trends—such as whether the economy is expanding or contracting, inflation levels and trends, changes in tax policy, and Fed monetary policy decisions.

Brightwater utilizes technical analysis on a more limited basis, technical analysis involves assessing trends, such as like the analysis of whether the stock market is trending up or down. This assessment along with client investment objectives and time horizons can influence the decision to make tactical changes to asset allocation in client portfolios. Brightwater's analysis of whether interest rates are trending up or down is also used in making tactical changes in asset allocation, as well as average bond market maturities and duration in client portfolios.

### Investment Strategies

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Brightwater's wealth management process is based on our core philosophy of finding value opportunities, both relative and absolute, under all market conditions, while still embracing the simplest and basic concept of risk reduction – diversification.

Each portfolio is invested based on the client's individual needs, as determined by Brightwater through initial and ongoing consultations to gain an understanding of the client's objectives for growth and income, risk sensitivity, level of knowledge, understanding and investment experience.

Brightwater has developed model portfolios for each of its investment strategies that blend various asset classes and sleeves (i.e., buckets or silos) of asset classes together for general risk profiles. Some sleeves use index funds to achieve broad exposure to an asset class, while other sleeves have an active security selection and management component to them. Our process for constructing our model portfolios is a combination of:

- Top-down asset allocation that is influenced and guided by outside research providers;
- Bottom-up security or fund selection that is based on quantitatively driven value metrics; and

- Risk management overlay on the targeted portfolio allocation, which is based upon current and expected market conditions and which is designed to allow for a minor portion of the portfolio to directly affect the overall expected volatility of the portfolio by investing in equity ETFs to increase the expected volatility or using short-term bonds or cash to somewhat reduce the expected volatility.

Top-down investing involves analyzing the “big picture” to determine the health of the economy and to forecast which industries will generate the best returns. The top-down allocation weightings are directly influenced by research providers such as Ned Davis Research ([www.ndr.com](http://www.ndr.com)), among others, the focus of which is a balanced measure of fundamental, quantitative and technical factors around asset classes against a strategic benchmark. Our bottom-up selection of individual stocks is primarily driven by quantitative value metrics using fundamental data provided by Morningstar.

Both traditional technical analysis of chart patterns and quantitatively derived trend assessment are used when attempting to optimize a buy or a sell, as well as the size of the total position within the model. Our investment models may be used in varying combinations over time for a given client, depending upon the client’s individual circumstances.

Utilizing various investment types (e.g., common stocks, individual bonds, mutual funds, ETFs, etc.), Brightwater may invest in the following asset classes, without limitation:

- Bonds, which includes sub categories such as treasuries, municipals, corporates, mortgage-backed securities, high yield, bank notes and international bonds;
- Equities, which includes sub categories such as large, mid and small capital US stocks, international stocks and emerging markets stocks;
- Preferred Stocks;
- Real Estate Investment Trusts;
- Master Limited Partnerships;
- Commodities;
- Alternatives; and
- Cash.

Brightwater strives to maintain the client’s target allocation within a range of 15% above the target for equities (up to 100%) and 25% below the target weighting for equities. In some market environments, Brightwater may decide to temporarily hold much less than 25% below the target in equities in client accounts, if Brightwater’s assessment warrants a need to reduce risk and focus on preservation of capital.

Brightwater primarily engages in long-term investing. This means securities are purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year. However, in certain instances, short-term purchases of securities may be made with

the expectation of selling them within a relatively short period of time, generally less than one year, to take advantage of the securities' short term price fluctuations.

Notwithstanding the foregoing, Brightwater may manage the portfolios of certain legacy clients of Tampa Asset Management, LLC using investment strategies other than those described herein. Brightwater anticipates that, over time, it shall gradually begin managing such client's portfolios using the investment strategies described herein, in accordance with each client's individual needs.

### **Risk of Loss**

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While Brightwater seeks to diversify clients' investment portfolios across various asset classes consistent with their IPS's in an effort to reduce risk of loss, all investment portfolios are subject to risks which clients should be prepared to bear. Accordingly, there can be no assurance that client investment portfolios will be able to fully meet their investment objectives and goals, or that investments will not lose money. Below is a description of several of the principal risks that client investment portfolios face.

#### *Management Risks*

While Brightwater manages client investment portfolios based on Brightwater's experience, research and proprietary methods, the value of client investment portfolios will change daily based on the performance of the underlying securities in which they are invested. Accordingly, client investment portfolios are subject to the risk that Brightwater allocates client assets to individual securities and/or asset classes that are adversely affected by unanticipated market movements, and the risk that Brightwater's specific investment choices could underperform their relevant indexes.

#### *Risks of Investments in Mutual Funds, ETFs and Other Investment Pools*

As described above, Brightwater may invest client portfolios in mutual funds, ETFs and other investment pools ("pooled investment funds"). Investments in pooled investment funds are generally less risky than investing in individual securities because of their diversified portfolios; however, these investments are still subject to risks associated with the markets in which they invest. In addition, pooled investment funds' success will be related to the skills of their particular managers and their performance in managing their funds. Pooled investment funds are also subject to risks due to regulatory restrictions applicable to registered investment companies under the Investment Company Act of 1940.

#### *Equity Market Risks*

Brightwater will generally invest portions of client assets directly into equity investments, primarily stocks, or into pooled investment funds that invest in the stock market. As noted above, while pooled investments have diversified portfolios that may make them less risky than investments in individual securities, funds that invest in stocks and other equity securities are nevertheless subject to the risks of the stock market. These risks include, without limitation, the risks that stock values will decline due to daily fluctuations in

the markets, and that stock values will decline over longer periods (e.g., bear markets) due to general market declines in the stock prices for all companies, regardless of any individual security's prospects.

#### *Fixed Income Risks*

Brightwater may invest portions of client assets directly into fixed income instruments, such as bonds and notes, or may invest in pooled investment funds that invest in bonds and notes. While investing in fixed income instruments, either directly or through pooled investment funds, is generally less volatile than investing in stock (equity) markets, fixed income investments nevertheless are subject to risks. These risks include, without limitation, interest rate risks (risks that changes in interest rates will devalue the investments), credit risks (risks of default by borrowers), or maturity risk (risks that bonds or notes will change value from the time of issuance to maturity).

#### *Foreign Securities Risks*

Brightwater may invest portions of client assets into pooled investment funds that invest internationally. While foreign investments are important to the diversification of client investment portfolios, they carry risks that may be different from U.S. investments. For example, foreign investments may not be subject to uniform audit, financial reporting or disclosure standards, practices or requirements comparable to those found in the U.S. Foreign investments are also subject to foreign withholding taxes and the risk of adverse changes in investment or exchange control regulations. Finally, foreign investments may involve currency risk, which is the risk that the value of the foreign security will decrease due to changes in the relative value of the U.S. dollar and the security's underlying foreign currency.

## **Item 9. Disciplinary Information**

Brightwater has not been involved in any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of its management.

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

This item requires investment advisers to disclose certain financial industry activities and affiliations.

#### **Morningstar Advisory Board**

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David C. Maddux, Principal of the Firm, serves on an advisory board of Morningstar, Inc., ("Morningstar"), a provider of investment research and investment management services. In this capacity, he participates in

occasional in-person and telephonic meetings to advise Morningstar on the development of products and services it offers to investment professionals. As part of this arrangement, David C. Maddux receives a stipend for travel expenses incurred for in-person meetings, as well as registration for the annual Morningstar Investment Conference. As a result, a conflict of interest exists to the extent Brightwater recommends the products and services of Morningstar to its clients and to the extent that Brightwater utilizes the products and services of Morningstar in its management of client accounts. The Firm seeks to ensure all recommendations are made in its clients' best interest regardless of any such affiliations. In addition, the Firm reviews all vendor relationships on an ongoing basis in an effort to ensure it is receiving competitive rates in relation to the quality and scope of the services provided.

## Item 11. Code of Ethics

Brightwater has adopted a code of ethics in compliance with applicable securities laws ("Code of Ethics") that sets forth the standards of conduct expected of its Supervised Persons. Brightwater's Code of Ethics contains written policies reasonably designed to prevent certain unlawful practices such as the use of material non-public information by the Firm or any of its Supervised Persons and the trading by the same of securities ahead of clients in order to take advantage of pending orders.

The Code of Ethics also requires certain of Brightwater's personnel to report their personal securities holdings and transactions and obtain pre-approval of certain investments (*e.g.*, initial public offerings, limited offerings). However, the Firm's Supervised Persons are permitted to buy or sell securities that it also recommends to clients if done in a fair and equitable manner that is consistent with the Firm's policies and procedures. This Code of Ethics has been established recognizing that some securities trade in sufficiently broad markets to permit transactions by certain personnel to be completed without any appreciable impact on the markets of such securities. Therefore, under limited circumstances, exceptions may be made to the policies stated below.

When the Firm is engaging in or considering a transaction in any security on behalf of a client, no Supervised Person with access to this information may knowingly effect for themselves or for their immediate family (*i.e.*, spouse, minor children and adults living in the same household) a transaction in that security unless:

- the transaction has been completed;
- the transaction for the Supervised Person is completed as part of a batch trade with clients;  
or
- a decision has been made not to engage in the transaction for the client.

These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact Brightwater to request a copy of its Code of Ethics.

## **Item 12. Brokerage Practices**

### **Recommendation of Broker-Dealers for Client Transactions**

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As discussed above, in Item 5, Brightwater shall generally recommend that clients utilize the brokerage and clearing services of Charles Schwab & Co, Inc. through its Schwab Advisor Services division ("Schwab"). Factors which Brightwater considers in recommending Schwab or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. Schwab enables Brightwater to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by Schwab may be higher or lower than those charged by other Financial Institutions.

The commissions paid by Brightwater's clients comply with Brightwater's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified Financial Institution might charge to effect the same transaction where Brightwater determines that the commissions are 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 Financial Institution's services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Brightwater seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions. Brightwater periodically and systematically reviews its policies and procedures regarding its recommendation of Financial Institutions in light of its duty to obtain best execution.

The client may direct Brightwater in writing to use a particular Financial Institution to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that Financial Institution, and Brightwater will not seek better execution services or prices from other Financial Institutions or be able to "batch" client transactions for execution through other Financial Institutions with orders for other accounts managed by Brightwater (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best

execution, Brightwater may decline a client's request to direct brokerage if, in Brightwater's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist Brightwater in its investment decision-making process. Such research generally will be used to service all of Brightwater's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because Brightwater does not have to produce or pay for the products or services.

### **Software and Support Provided by Financial Institutions**

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Brightwater receives from Schwab, without cost to Brightwater, certain computer software and related systems support, which allow Brightwater to better monitor client accounts maintained at Schwab. Brightwater receives the software and related support without cost because Brightwater renders investment management services to clients that maintain assets at Schwab. Certain of the software and related systems support benefit Brightwater, but not its clients directly. In fulfilling its duties to its clients, Brightwater endeavors at all times to put the interests of its clients first. Clients should be aware, however, that Brightwater's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence Brightwater's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets are maintained in accounts at Schwab Advisor Services. Schwab's services include brokerage services that are related to the execution of securities transactions, custody, research, including that in the form of advice, analyses and reports, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For client accounts maintained in its custody, Schwab generally does not charge separately for custody services but is compensated by account holders through commissions or other transaction-related or asset-based fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Schwab also makes available to the Firm other products and services that benefit the Firm but do not benefit its clients' accounts. These benefits may include national, regional or Firm specific educational events organized and/or sponsored by Schwab. Other potential benefits include occasional business entertainment of personnel of Brightwater by Schwab personnel, including meals, invitations to sporting events, including golf tournaments, and other forms of entertainment, some of which may accompany educational opportunities.

Other of these products and services assist Brightwater in managing and administering clients' accounts. These include software and other technology (and related technological training) that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of the Firm's fees from its clients' accounts, and assist with back-office training and support functions, recordkeeping and client reporting. Many of these services generally can be used to service all or some substantial number of the Firm's accounts, including accounts not maintained at Schwab. Schwab also makes available to Brightwater other services intended to help the Firm manage and further develop its business enterprise. These services may include professional compliance, legal and business consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, employee benefits providers, human capital consultants, insurance and marketing. In addition, Schwab may make available, arrange and/or pay vendors for these types of services rendered to the Firm by independent third parties. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to the Firm. While, as a fiduciary, Brightwater endeavors to act in its clients' best interests, the Firm's recommendation that clients maintain their assets in accounts at Schwab may be based in part on the benefits received and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which creates a potential conflict of interest.

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**Brokerage for Client Referrals**

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Brightwater does not consider, in selecting or recommending broker-dealers, whether the Firm receives client referrals from the Financial Institutions or other third party.

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**Directed Brokerage**

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The client may direct Brightwater in writing to use a particular Financial Institution to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that Financial Institution and the Firm will not seek better execution services or prices from other Financial Institutions or be able to "batch" client transactions for execution through other Financial Institutions with orders for other accounts managed by Brightwater (as described above). As a result, the client may pay higher commissions or other transaction costs, greater spreads or may receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, Brightwater may decline a client's request to direct brokerage if, in the Firm's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.



### Trade Aggregation

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Transactions for each client will be effected independently, unless Brightwater decides to purchase or sell the same securities for several clients at approximately the same time. Brightwater may (but is not obligated to) combine or “batch” such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among the Firm’s clients differences in prices and commissions or other transaction costs that might not have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and allocated among Brightwater’s clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that the Firm determines to aggregate client orders for the purchase or sale of securities, including securities in which Brightwater’s Supervised Persons may invest, the Firm does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. Brightwater does not receive any additional compensation or remuneration as a result of the aggregation.

In the event that the Firm determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account’s assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, the Firm may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

## Item 13. Review of Accounts

### Account Reviews

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For those clients to whom Brightwater provides investment management services, Brightwater monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. In addition, Brightwater will meet with clients in person or on the phone at least annually, to discuss changes in their current or future financial condition, to review their investment objectives, asset allocation, holdings, and performance, and to discuss any changes in direction that should be made.

For those clients to whom Brightwater provides investment planning and/or consulting services, reviews are conducted on an “as needed” basis. Reviews are conducted by the investment adviser representatives of Brightwater, David C. Maddux and Robert B. Garey. All clients are encouraged to discuss their needs, goals, and objectives with Brightwater and to keep Brightwater informed of any changes thereto.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom Brightwater provides investment advisory services will also receive a report from Brightwater that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance on a quarterly basis. Clients should compare the account statements they receive from their custodian with those they receive from Brightwater.

Those clients to whom Brightwater provides consulting services will receive reports from Brightwater summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by Brightwater.

#### **Account Statements and Reports**

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Clients are provided with transaction confirmation notices and regular summary account statements directly from the Financial Institutions where their assets are custodied. From time-to-time or as otherwise requested, clients may also receive written or electronic reports from Brightwater and/or an outside service provider, which contain certain account and/or market-related information, such as an inventory of account holdings or account performance. Clients should compare the account statements they receive from their custodian with any documents or reports they receive from Brightwater or an outside service provider.

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

Brightwater is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. In addition, Brightwater is required to disclose any direct or indirect compensation that it provides for client referrals. Brightwater does not have any required disclosures to this Item.

### **Item 15. Custody**

The Advisory Agreement and/or the separate agreement with any Financial Institution authorize Brightwater to debit client accounts for payment of the Firm’s fees and to directly remit that those funds to the Firm in accordance with applicable custody rules. The Financial Institutions that act as the qualified

custodian for client accounts, from which the Firm retains the authority to directly deduct fees, have agreed to send statements to clients not less than quarterly detailing all account transactions, including any amounts paid to Brightwater.

In addition, as discussed in Item 13, Brightwater will also send, or otherwise make available, periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the Financial Institutions and compare them to those received from Brightwater.

## **Item 16. Investment Discretion**

Brightwater is given the authority to exercise discretion on behalf of clients. Brightwater is considered to exercise investment discretion over a client's account if it can effect and/or direct transactions in client accounts without first seeking their consent. Brightwater is given this authority through a power-of-attorney included in the agreement between Brightwater and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). Brightwater takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold; and
- When transactions are made.

## **Item 17. Voting Client Securities**

Brightwater accepts the authority to vote a client's securities (i.e., proxies) on their behalf. When Brightwater accepts such responsibility, it will only cast proxy votes in a manner consistent with the best interest of its clients. Absent special circumstances, which are fully- described in Brightwater's Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in Brightwater's Proxy Voting Policies and Procedures, as they may be amended from time-to-time. Clients may contact Brightwater to request information about how Brightwater voted proxies for that client's securities or to get a copy of Brightwater's Proxy Voting Policies and Procedures. A brief summary of Brightwater's Proxy Voting Policies and Procedures is as follows:

- Brightwater has formed a Proxy Voting Committee that will be responsible for monitoring corporate actions, making voting decisions in the best interest of clients, and ensuring that proxies are submitted in a timely manner.

- The Proxy Voting Committee will generally vote proxies according to Brightwater's then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including: composition of the board of directors; approval of independent auditors; management and director compensation; anti-takeover mechanisms and related issues; changes to capital structure; corporate and social policy issues; and issues involving mutual funds.
- Although the Proxy Voting Guidelines are followed as a general policy, certain issues are considered on a case-by-case basis based on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, Brightwater devotes an appropriate amount of time and resources to monitor these changes.
- Clients cannot direct Brightwater's vote on a particular solicitation but can revoke Brightwater's authority to vote proxies.

In situations where there may be a conflict of interest in the voting of proxies due to business or personal relationships that Brightwater maintains with persons having an interest in the outcome of certain votes, Brightwater takes appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

## **Item 18. Financial Information**

Brightwater is not required to disclose any financial information due to the following:

- The Firm does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance of services rendered;
- The Firm does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- The Firm has not been the subject of a bankruptcy petition at any time during the past ten years.