

Chesme Capital Management

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This Brochure provides information about the qualifications and business practices of Chesme Capital Management. If you have any questions about the contents of this Brochure, please contact us at (517) 669-1600 or chuck@chesme.com. 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.

Additional information about Chesme Capital Management also is available on the SEC's website at www.adviserinfo.sec.gov.

Chesme Capital Management is a registered investment adviser. Registration of an investment adviser does not imply a certain level of skill or training.

Item 2 – Material Changes

Below is a summary of material changes to Chesme Capital Management’s (“Chesme”) Brochure since its last annual amendment dated March 29, 2018.

Item 4- Advisory Business

Chesme enhanced its disclosure to include a more robust description of the financial planning services offered by the firm.

Item 5 – Fees and Compensation

Chesme has updated its disclosure to reflect the firm no longer charges hourly fees for certain services offered.

Item 10 – Other Financial Industry Activities and Affiliations

Disclosures related to Chesme’s relationships with affiliates were updated and previously relevant conflicts of interest were removed, including:

- Chesme and Red Cedar Investment Management, LLC (“Red Cedar”), and affiliated investment adviser, no longer share personnel or business development functions.
- Red Cedar’s Director of Operations no longer oversees Chesme’s operational function.
- Chesme’s President no longer serves as Red Cedar’s Chief Operating Officer (“COO”).

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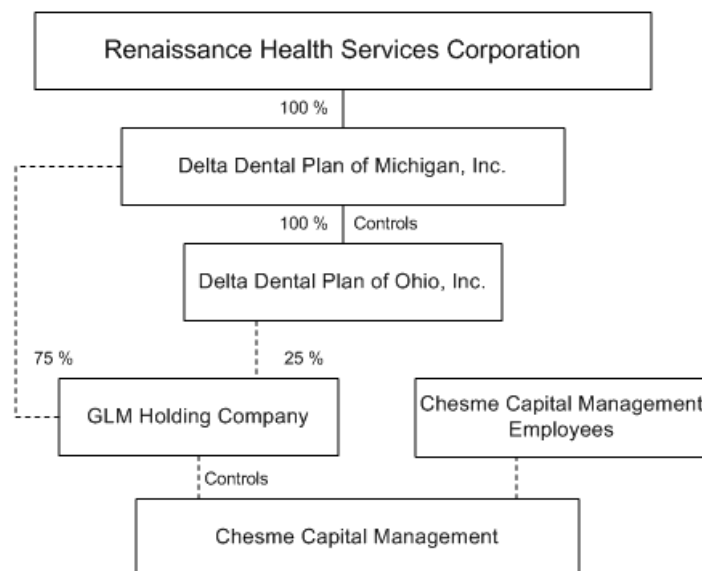
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Item 4 – Advisory Business

Chesme Capital Management (“Chesme” or “the Firm”) is an investment advisory firm registered with the U.S. Securities & Exchange Commission (“SEC”) under the name Chesme, LLC. Registration does not imply a certain level of skill or training. The Firm provides advisory services to individuals, institutional clients and retirement plans.

Chesme is a subsidiary of GLM Holding Company (“GLM”), which is owned by Delta Dental Plan of Michigan, Inc. (“Delta Dental of Michigan”), a Michigan non-profit dental care corporation, and Delta Dental Plan of Ohio, Inc. (“Delta Dental of Ohio”), an Ohio non-profit health insuring corporation. Delta Dental of Ohio is controlled by Delta Dental of Michigan, which in turn is a wholly owned subsidiary of Renaissance Health Services Corporation (“RHSC”). Three Chesme employees also have a non-controlling ownership interest in the Firm. Prior to June 1, 2017, Chesme was 100% employee-owned and registered under the name Chesme, Inc., which was established in 2003.

The chart below depicts Chesme’s current ownership structure:



The foundation of the Firm is its discipline and commitment to a fiduciary standard of care. Chesme practices nothing short of full disclosure and complete transparency. The Firm makes every effort to avoid conflicts of interest and make full disclosure of any material conflicts that could affect its advisory relationships.

ADVISORY SERVICES - The Firm provides advisory services to individual clients in the form of Planning and Portfolio Management.

The Firm provides advisory services to institutional clients in the form of Portfolio Management and to retirement plans in the form of Fiduciary Consulting and Investment Management.

PLANNING (Individual Accounts)

The Firm offers the following Planning services:

- Goals-Based Planning: The Firm develops and implements a prudent asset allocation strategy, targeting future financial goals and cash flow needs, while avoiding undue sacrifices to current lifestyle and unnecessary investment risk. The Firm focuses on existing and expected income sources/assets, investment time horizon, savings rate, and risk preference/capacity.
- Retirement Income Planning: The Firm develops a prudent and realistic retirement income strategy to support spending goals throughout retirement, while leaving sufficient reserves for unexpected contingencies and any desire to leave a legacy for subsequent generations. The Firm focuses on asset/liability balance, timing, and income strategy selection.
- Insurance Planning/Risk Management: The Firm works in conjunction with properly licensed insurance professionals to review existing insurance policies (Life, Disability, Long-term Care, Health, and Property & Casualty) and make recommendations as to the type, amount, and limits on each policy.
- Income Tax Planning: The Firm works in conjunction with properly licensed/certified accounting professionals to project current income tax position and analyze withholding. The Firm develops and implements strategies to reduce current and future income tax liability.
- Estate Planning: The Firm works in conjunction with properly licensed legal professionals to review existing estate planning documents and recommend changes where appropriate. The Firm projects estate taxes given current and proposed estate planning documents.

PORTFOLIO MANAGEMENT (Individual/Institutional Accounts)

The Firm provides Portfolio Management services to both individual and non-ERISA institutional accounts. Portfolio Management is offered as a standalone service or it may be used in conjunction with the Firm's Planning services.

The Firm gathers a sufficient level of relevant information concerning the client's investment knowledge, current financial state, investment objectives, expectations, risk tolerance, and reasonable restrictions the client wishes to place on the management of the client's assets. Chesme's advice and portfolio management recommendations are specifically tailored to the goals, needs, and desires of each client on an individual basis.

Chesme offers to meet with clients at least annually to review their financial circumstances and discuss any necessary adjustments to the current asset allocation. Clients are reminded to promptly notify the Firm of any changes to their financial situation, investment objectives, risk

tolerance or account restrictions. In addition, the Firm assists the client in understanding and evaluating the services provided.

FIDUCIARY CONSULTING & INVESTMENT MANAGEMENT (Retirement Plans)

The Firm engages in Fiduciary Consulting & Investment Management for employer sponsored retirement plans at the Plan Level, Investment Level, and Participant Level. Duties include:

- Fiduciary Appointment Acceptance in Writing (as outlined by ERISA)
- Plan Fee Analysis
- Investment Policy Statement Preparation/Monitoring
- Vendor Search
- Vendor Pricing Negotiation
- Investment Selection/Monitoring
- Investment Performance Benchmarking/Reporting
- Participant Education, Guidance, or Advice

ASSETS UNDER MANAGEMENT AND ADVISEMENT

As of December 31, 2018, the Firm had a total of \$704,933,666 of assets under management. Of that total, \$703,638,963 is managed on a discretionary basis with the remaining \$1,294,703 being managed on a non-discretionary basis. Additionally, Chesme had \$4,285,224 of assets under advisement.

Item 5 – Fees and Compensation

PLANNING SERVICES (Individual Accounts)

Depending on the complexity of the planning to be performed and the frequency of communication/reporting, fees are typically charged as a flat annual fee (\$500 to \$25,000 – negotiable) and are charged in addition to Portfolio Management fees (under a separate fee schedule).

The fees charged for Planning services are solely for the preparation and reporting of the plan and do not include other expenses or fees that might be generated upon implementation of the recommendations.

The specific manner in which fees are charged by the Firm is established in a client's written planning agreement with the Firm. The Firm typically bills its fees in arrears on a quarterly basis or in advance on an annual basis. Planning fees are not prorated in any instance.

PORTFOLIO MANAGEMENT ANNUAL FEE SCHEDULE (Individual/Institutional Accounts)

Chesme charges clients a fee based on a percentage of the aggregate market value of a client's account(s). The standard fee schedule, which is negotiable, is set forth below, although certain legacy clients may use a different fee schedule or a flat fee arrangement.

For Balances Less Than \$50,000

\$500 Flat Fee

For Balances Over \$50,000

On the first \$250,000 (up to \$250,000 in total assets)	1.00%
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On the next \$250,000 (up to \$500,000 in total assets)	0.80%
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On the next \$250,000 (up to \$750,000 in total assets)	0.60%
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On the next \$250,000 (up to \$1,000,000 in total assets) 0.40%

For a balances over \$1,000,000	0.10%
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The annual fee is tiered, which results in lower fees as assets in the client's account(s) increase. For example, account(s) with a value of \$600,000 would pay 1.00% on the first \$250,000, 0.80% on the next \$250,000, and 0.60% on the remaining \$100,000. All accounts for client(s) in the same household are aggregated for purposes of calculating fees using the tiered schedule above.

The Firm manages accounts for Chesme employees and their immediate family members at a discounted rate or free of charge. Chesme maintains a Code of Ethics and investment, trade allocation and account valuation policies and procedures designed to prevent these accounts from receiving favorable treatment, other than with respect to fees.

The specific manner in which portfolio management fees are charged by the Firm is established in a client's written investment advisory agreement with the Firm. The Firm typically bills its fees in arrears on a quarterly (calendar) basis based on the market value of the client's account on the last business day of the quarter and are not adjusted for capital contributions and/or withdrawals made during the quarter. Advisory fees are prorated for new accounts and are charged a prorated fee based on the number of days in the quarter in which services are provided divided by the total numbers of days in the quarter. Clients may elect to be billed directly for fees or to authorize the Firm to directly debit fees from their accounts. In all cases, clients receive an original invoice on a quarterly basis. All portfolio management client accounts are subject to a minimum flat fee of \$500.

A client or Chesme may terminate the advisory relationship at any time by providing written notice. Accounts terminated during a calendar quarter are charged a prorated fee based on the number of days in the quarter in which services are provided divided by the total numbers of days in the quarter. Upon termination of any account, any earned, unpaid fees will be due and payable.

Clients may also separately incur certain charges imposed by custodians, brokers, third party investment advisors and other third parties. These fees may include fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on investment accounts and securities transactions.

Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in the funds' prospectus. Such charges, fees and commissions are exclusive of and in addition to the Firm's advisory/portfolio management fees. Refer to Item 12 for information on the Firm's brokerage practices.

FIDUCIARY CONSULTING & INVESTMENT MANAGEMENT (Retirement Plans)

The Firm's fee schedule for retirement plan Fiduciary Consulting & Investment Management is negotiable and is based on the level of service required, fiduciary responsibility assumed by the Firm, and the complexity and size of the plan.

The Firm may charge a flat fee to cover fiduciary duties at the plan or Trustee level. These duties may include analyzing an existing plan's services, fees and investments, reviewing, creating or monitoring the Investment Policy Statement, conducting vendor searches and plan conversion/enrollment activities. The Firm charges a negotiable flat fee of \$2,500 - \$25,000 for these services.

The Firm may also charge a fee for fiduciary duties at the investment and participant levels. These duties may include investment monitoring and benchmarking, performance reporting and the delivery of participant level services. The Firm typically charges a negotiable annual fee, expressed as a percentage of assets, ranging from 0.10% to 0.40% for these services with a \$2,500 annual minimum fee. Chesme also has some clients that are charged a negotiated flat fee for these services.

The specific manner in which fees for Fiduciary Consulting and Investment Management services are charged by the Firm are negotiable and vary based on the client. The Firm typically bills its fees in arrears on either a quarterly or monthly basis based on the market value of the client's account on the last business day of the relevant period. Details of each client's fee billing and payment practices are detailed in that client's investment advisory agreement. Fees are not prorated for new accounts.

Services are provided to Chesme employees and their immediate family members at a discount to the standard fee schedule or free of charge.

ACCOUNT VALUATION PRACTICES

The Firm uses account market values to calculate assets under management, client investment management fees and investment performance, where applicable. There are inherent conflicts of interest when Chesme values client accounts, as higher security prices increase market values, thereby enhancing performance results and increasing fees. Chesme maintains account valuation (including fair valuation) policies and procedures to address such conflicts.

In all cases, the Firm uses pricing information provided by its clients' custodians to value the respective client portfolios. The account market value utilized for fee calculation purposes

includes all assets owned by the client in the account, which may include unmanaged assets if Chesme manages the account around these unmanaged assets.

If a price for an asset is not available from a custodian or Chesme believes the price received from the custodian is not reflective of fair market value, Chesme's Investment Committee will be responsible for determining a fair value price in accordance with the methodology outlined in Chesme's pricing and valuation procedures.

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

The Firm does not charge performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client). As a result, the Firm has no conflicts of interest between accounts that pay asset-based fees and accounts that pay performance-based fees, known as side-by-side management.

Item 7 – Types of Clients

The Firm provides advisory services to individuals, high net worth individuals, corporate pension and profit-sharing plans, corporations, charitable institutions, foundations and endowments. Chesme does not impose a minimum account size for any advisory relationship; however, a minimum account fee for portfolio management clients is imposed as disclosed in Item 5 above. The Firm currently provides service to accounts for several affiliates. Refer to Item 10 for a discussion of related conflicts of interest.

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

Chesme believes in a passive investment management philosophy that focuses on specific asset class risk and return characteristics while limiting expenses, portfolio turnover and trading costs. Chesme manages each client account individually and utilizes an investment allocation strategy that blends a combination of different asset classes into a well diversified portfolio that matches each client's risk tolerance and investment goals.

Chesme predominantly utilizes open-end mutual funds when managing its client accounts. From time to time, Chesme utilizes fixed income securities in client accounts although fixed income securities do not make up a significant portion of Chesme's investment strategy.

Chesme meets with its clients at the onset of the client relationship to determine the client's investment objectives, risk tolerance, goals, etc. In the case of individual clients, this process culminates in the completion of an investment objectives form which governs management of the client's account. For institutional and retirement plan clients, the account is managed based on an

Investment Policy Statement ("IPS") which is executed by the client and Chesme based on these initial client meetings. After these initial meetings take place and the investment objectives form or IPS is adopted, client accounts are managed on an individual basis by the employee assigned to the account, under the oversight of the Investment Committee.

Chesme, under the oversight of its Investment Committee, continually monitors the mutual funds and fixed income securities it recommends for use in Chesme's client accounts to reasonably ensure the securities used in its client accounts continue to be the optimal security for the particular asset class, sector or capitalization. The Investment Committee generally reviews the securities it recommends for use in its client accounts on a quarterly basis, including comparing the performance of securities against benchmarks. If the Investment Committee determines that a security should no longer be utilized in client accounts or should be replaced, changes are made to client accounts based on an individual analysis of each client's current portfolio, investment objectives and goals, among other factors. This analysis is performed by the Chesme employee assigned to each client.

MATERIAL INVESTMENT RISKS

Investing in securities involves the risk of loss that clients should be prepared to bear, including the loss of principal. Chesme does not assure or guarantee the results of any of its recommendations and does not guarantee that it will be successful in meeting investment goals or objectives. Certain material risks relating to the advice and recommendations provided by Chesme are set forth below, but this section does not attempt to identify every risk or to describe completely those risks it does identify.

Market Risk

Client accounts are subject to general market risk. The value of the securities held in client accounts will tend to increase or decrease in response to movements in the market. Individual mutual fund investments may decline in value or not increase in value due to events unique to the individual investment, even when stock markets in general are rising.

Management Risk

Chesme's investment approach may not produce the intended result due to a particular asset class or security type not performing as expected within Chesme's investment strategies. As a result, the overall performance of a client's account may decline or be less than expected.

Third Party Manager Risk

Chesme recommends open-ended mutual funds as part of client portfolios. Other than with respect to decisions to invest and redeem, Chesme has no control over the investment strategies or decisions of the portfolio managers of mutual funds included in client portfolios. Portfolio managers of mutual funds invest in a broad range of equity, fixed income or exchange traded fund ("ETF") securities which all have their own risks, as detailed below. Should Chesme become

dissatisfied with the investment decisions of one of the mutual funds included in its investment strategies, its only course of action would be to liquidate the client investment.

Equity Risk

Equity securities are typically more volatile than other security types. As a result, the performance of mutual funds that utilize equity securities may be more volatile than the investment markets as a whole, which can affect a client's overall account performance. The mutual funds recommended by Chesme may invest in small or mid-cap companies which have additional risks. Smaller companies tend to be more volatile and have higher failure rates due to more limited markets financial resources and management experience. Additionally, smaller companies exhibit greater price volatility and sensitivity to market selling pressure than larger companies.

Foreign Securities Risk

The mutual funds recommended by Chesme may invest in foreign securities. Foreign securities are subject to additional risks not typically associated with investments in domestic securities. These risks may include, among others, currency risk, country risks (political, diplomatic, regional conflicts, terrorism, war, social and economic instability, currency devaluations and policies that have the effect of limiting or restricting foreign investment or the movement of assets), different trading practices, less government supervision, less publicly available information, limited trading markets and greater volatility. To the extent that the mutual funds invest in issuers located in emerging markets, the risk may be heightened by political changes, changes in taxation, or currency controls that could adversely affect the values of these investments. Emerging markets have been more volatile than the markets of developed countries with more mature economies.

Fixed Income Risk

The mutual funds recommended by Chesme may invest in fixed income securities. Additionally, Chesme recommends fixed income securities for client accounts on an infrequent basis. The issuers of fixed income securities may fail to make interest and principal payments which will affect the credit rating of the issuer and the price of the fixed income security owned by the mutual fund. Bankruptcy or insolvency of the issuer may result in total loss of principal. Fixed income security values also fluctuate in response to market interest rates.

ETF Risk

A mutual fund recommended by Chesme may invest in ETFs. ETFs, depending on size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing downward price movement. Certain ETFs may also employ leverage, which increases volatility and creates additional costs to the ETF due to interest on the leverage.

Cybersecurity Risk

Chesme relies on information technology and electronic communications to conduct business, which subjects Chesme and its clients to the risk of cyber incidents. While Chesme has controls it believes are reasonably designed to protect against cyber incidents resulting in unauthorized access to confidential information or business disruptions, not all cyber incidents are preventable. Should a cyber incident occur, it would likely have a negative impact on Chesme and its clients.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the Firm or the integrity of the Firm's management. The Firm has no information applicable to this Item.

Item 10 – Other Financial Industry Activities and Affiliations

The following describes Chesme's relationships with affiliates in the financial industry and related conflicts of interest, including how Chesme manages those conflicts.

Affiliates

As noted in Item 4, Chesme is a subsidiary of GLM, which is owned by Delta Dental of Michigan and Delta Dental of Ohio. Delta Dental of Ohio is controlled by Delta Dental of Michigan, which in turn is a wholly owned subsidiary of RHSC. As a result of these relationships, Chesme has various affiliates that are under the common control of GLM, Delta Dental of Michigan and RHSC. Many of these affiliates are other Delta Dental plans and certain of them are Renaissance-branded insurance companies and other Renaissance-branded related dental industry services.

Chesme provides advisory services to certain affiliates. This creates a conflict of interest as Chesme could favor the affiliated accounts over other non-affiliated client accounts. These affiliated accounts are considered clients, are managed according to an investment advisory agreement and pay an advisory fee. The Firm's investment strategy reduces the importance of the timing and allocation of individual investment recommendations, as Chesme feels the investment allocation is more influential on performance than the underlying investments. Further, Chesme primarily utilizes open-ended mutual funds, which reduces the opportunity to favor one account over another. However, to assist in managing potential conflicts of interest, Chesme maintains investment and trade allocation policies and procedures designed to ensure all clients are treated fairly over time, as well as a Code of Ethics which includes expectations and standards of conduct, including acting in the best interest of clients and treating all clients fairly.

Red Cedar Investment Management

Chesme and Red Cedar Investment Management, LLC ("Red Cedar"), another subsidiary of GLM which is also registered as an investment adviser with the SEC, are under common control. As noted further below, Chesme and Red Cedar have common members of both entities' Board of Managers. Having an affiliated investment adviser with integrated executive management creates a potential conflict of interest for Chesme clients due to competing priorities. This conflict of interest is mitigated as Chesme's business focuses predominately on wealth management (individual) clients and retirement plans, while Red Cedar's business focuses on institutional asset management clients. Additionally, both advisers utilize a long-term focused asset allocation strategy and rely predominately on mutual funds in client portfolios.

Use of Delta Dental of Michigan Resources

Chesme has entered into an Administrative Services Agreement with Delta Dental of Michigan ("Delta ASA"), pursuant to which Delta Dental of Michigan provides certain administrative services to Chesme, including human resources and legal services. Chesme's use of Delta Dental of Michigan employees in various capacities creates the potential for a conflict of interest between the obligations to Chesme's clients and the incentive to take actions that benefit Delta Dental of Michigan (or another applicable enterprise affiliate). There may also be conflicts of interest with respect to the allocation of resources and time. Each entity's management team is cognizant of these potential conflicts of interest, and strives to ensure each individual's Delta Dental of Michigan responsibilities do not impair his or her responsibilities and obligations to Chesme.

Members of Chesme's Board of Managers

Two members of Chesme's Board of Managers are Delta Dental of Michigan employees and also serve as members of the Board of Managers of Red Cedar. As members of Red Cedar's Board of Managers, these individual are responsible for oversight of the strategic direction and overall operations of Red Cedar, but are not involved in the day-to-day operations or investment management process of the firm. Serving on the Board of Managers of both advisers could create a conflict of interest due to competing priorities, although this risk is expected to be minimal as Chesme and Red Cedar are both owned by GLM. Additionally, as noted further above, Chesme (wealth management/individual clients and retirement plans) and Red Cedar (institutional) focus on different types of clients.

Another member of Chesme's Board of Managers serves as Red Cedar's President and a member of Red Cedar's Board of Managers. In addition to the conflict of interest related to competing priorities mentioned above, Red Cedar's President is involved in Red Cedar's day-to-day operations and investment management process which could create an additional conflict of interest if Red Cedar's President became aware of details of Chesme's investment management process, such as overall investment strategy, allocations or investment recommendations. Red Cedar's President is not expected to be privy to such information about Chesme's investment

management process. Additionally, both Chesme and Red Cedar's investment strategies rely predominately on mutual funds, which further mitigates risk related to this individual's role on both advisers' Board of Managers.

Chesme's President/Chief Compliance Officer ("CCO")

Chesme's President also serves as CCO. Serving in dual roles could create conflicts of interest due to competing priorities. Although Chesme feels the interests of the role of its President and CCO will generally be aligned, it maintains investment and trade allocation policies and procedures and a Code of Ethics and Personal Trading policy, which outlines standards of conduct including the requirement to always put clients' interests ahead of all other interests, which assists in addressing such potential conflicts of interest.

Item 11 – Code of Ethics

The Firm maintains a Code of Ethics which applies to all personnel providing services to Chesme clients. As a fiduciary, Chesme has a duty of utmost good faith to act solely in the best interests of each of its clients. The Code of Ethics compels all personnel providing services to Chesme clients to act with utmost integrity in all dealings. In connection with these expectations, Chesme has established core standards of conduct consistent with Chesme's culture of trust, honesty, integrity, dependability, consistency and transparency.

The standards of conduct included in Chesme's Code of Ethics include provisions related to confidentiality of client information, limitations on personal trading, limitations on gifts and business entertainment, provisions related to serving as a director for an outside organization or engaging in outside business activities, prohibitions against using inside information to trade in personal accounts or on behalf of clients, and a requirement to strive to avoid and/or if appropriate, manage and/or disclose potential or actual conflicts of interest. All personnel providing services to Chesme clients are required to acknowledge the terms of the Code of Ethics at the time he/she becomes a supervised person and annually thereafter.

Chesme access persons are permitted to buy and sell for their own accounts securities that are recommended to clients, which create potential conflicts of interest. Chesme utilizes open-ended mutual funds and fixed income securities (on a limited basis). As such, Chesme believes that the risk of access persons personally benefiting from Chesme client market activity or Chesme access persons' personal trading activity interfering with making investment decisions in the best interest of clients is generally very low. The Code of Ethics requires all access persons to report to the CCO certain securities holdings information initially upon employment and at least annually thereafter and certain personal securities transaction information on a quarterly basis. Personal trading is monitored by Chesme to address the conflicts of interest arising from allowing access persons to invest in the same securities as clients.

A copy of Chesme's Code of Ethics is available to any client or prospective client upon request.

Item 12 – Brokerage Practices

Chesme's Investment Committee conducts oversight of the investment and trading processes including trading policies and procedures, best execution, soft dollar practices and broker considerations, including brokers used and commissions. Below is a summary of Chesme's trading and brokerage practices.

SELECTION OF BROKERS

For institutional clients, Chesme recommends clients use Fidelity Investments ("Fidelity") or Charles Schwab & Co. ("Schwab") as their custodian. For wealth management clients, Chesme recommends clients use Fidelity Investments or Schwab as their custodian. Chesme is not affiliated with Fidelity or Schwab. Chesme reserves the right to decline working with a client if the client wishes to select a custodian that has not been approved by Chesme.

It is generally an affiliated broker-dealer of Fidelity or Schwab that will execute the clients' transactions. Chesme considers many factors in selecting broker-dealers with which to place client trades and when recommending Fidelity and Schwab to its institutional and wealth management clients, including: quality of execution; financial condition of the firm; commission structure; acceptable record keeping, administrative and settlement functions; and reputation and integrity.

BEST EXECUTION

As a fiduciary, Chesme has an obligation to seek best execution of clients' transactions under the circumstances of the particular transaction. Chesme aims to execute transactions in a manner such that the client's total cost or proceeds is the most favorable under the circumstances. Chesme's Investment Committee monitors broker-dealer relationships and evaluates the quality of execution received from broker-dealers executing transactions for clients.

As noted above, Chesme recommends Fidelity and Schwab for its institutional clients and wealth management clients. The custodians that Chesme recommends, along with their affiliated broker-dealers, offer both custody and brokerage services, among other services. Clients will enter into an arrangement to utilize one of these custodians for both brokerage and custody services. This arrangement generally allows the client to obtain attractive brokerage rates and professional execution. Custodians may charge the client additional "trade away" fees when trades are executed by another broker-dealer, and therefore in most instances it is advantageous for Chesme to execute through the client's custodian in order to avoid these additional costs.

SOFT DOLLAR PRACTICES

Chesme does not engage in pre-arranged soft dollar arrangements, which are formal arrangements where Chesme specifically directs portfolio brokerage commissions to a broker-

dealer in return for brokerage or research services that Chesme may use in making investment decisions for its clients ("soft dollar" arrangements).

Chesme, however, may benefit from other services provided by broker-dealers, such as general research. Any such services provided by broker-dealers are generally available to all participating advisors in the applicable custodian's institutional adviser program. Benefits received from broker-dealers will not be used solely for the accounts that generated the brokerage commission, but will be used in managing all client accounts.

It is Chesme's policy to operate within the safe harbor of Section 28(e) of the Securities Exchange Act of 1934 when obtaining research and other brokerage services from broker-dealers which also execute trades in Chesme client accounts. When Chesme receives research or other brokerage services from broker-dealers or other benefits based on its relationship with broker-dealers, it could potentially cause a conflict of interest as Chesme may have incentive to select broker-dealers or recommend clients maintain their custodian accounts at Schwab or Fidelity based on its interest in receiving these services or benefits, rather than receiving the most favorable execution for client trades. When receiving research or brokerage services or other benefits, Chesme receives a benefit because it does not have to produce or pay for such services itself or receives a discount on services it would otherwise not. While Chesme may consider such services provided in allocating brokerage to a specific broker-dealer, as a practical matter Chesme generally allocates brokerage on the basis of execution quality and other related services rather than in consideration of research or brokerage services or other benefits received. The Investment Committee provides oversight of Chesme's brokerage practices including soft dollar considerations and broker commissions to provide reasonable assurance these conflicts are managed.

DIRECTED BROKERAGE ARRANGEMENTS

Chesme does not permit its clients to direct brokerage to a particular broker-dealer. As noted above, Chesme recommends clients utilize Fidelity or Schwab for custodian services. This arrangement generally allows the client to obtain attractive brokerage rates and professional execution through custodians' affiliated broker-dealers. Custodians may charge the client additional "trade away" fees when trades are executed by another broker-dealer, and therefore in most instances it is advantageous for Chesme to execute through the client's custodian in order to avoid these additional costs.

TRADE AGGREGATION PRACTICES

Due to the nature of the securities in which Chesme actively trades (specifically, mutual funds) and the Firm's investment philosophy to consider each client's needs and objectives rather than managing client accounts to specific investment models, securities held in client accounts are generally traded on an individual basis and are not "bunched" or "blocked" with other client trades.

In the unlikely occurrence that Chesme determines it is in the clients' best interest, trades may be bunched or traded in a block. In almost all cases, a block trade is filled by one broker. If on a rare occasion a block order is filled (full or partial fill) at several prices through multiple trades, an average price will be calculated for all trades executed by the broker for the block, and all participants in the block trade will receive the average price. Only trades executed within the block on the single day may be combined for purposes of calculating the average price. Partial fills may be allocated on a pro rata basis, subject to rounding and reasonable efforts to minimize trading costs.

CROSS TRANSACTIONS

Chesme generally does not affect cross transactions between its client accounts, however cross transactions may occur if Chesme determines it is in the best interest of each client participating in the trade. All cross transactions will be executed in accordance with Chesme's Cross Transactions Policy. Chesme will not engage in cross transactions involving an ERISA client account.

TRADE ERRORS

It is Chesme's policy for clients to be made whole following a trade error caused by Chesme. Chesme shall follow the custodian's trade error policy when correcting and resolving trade errors. Schwab's policy is to absorb *de minimis* losses under \$100 and make the client whole. If a loss is over \$100, Chesme will reimburse the entire loss. If a trade error results in a gain, Schwab's policy allows the client to keep that gain, only if the client account can support the trade error transaction (for example, client will not keep the gain if the client's account did not have enough cash to purchase the security that was purchased in error causing the trade error). Fidelity's policy requires Chesme to reimburse the client for the entire loss. If the trade error results in a gain, Fidelity's policy is to donate the gain to charity.

Chesme's Investment Committee will periodically review all trade errors. Chesme maintains a Trade Error Policy to ensure all trade errors caused by Chesme are resolved in the client's best interest.

Item 13 – Review of Accounts

Individual and institutional client accounts typically undergo a formal account review by the Chesme employee assigned to the account in preparation for client meetings at least annually, but more frequently if some cases. Factors that may trigger additional reviews include changes in client circumstances, changes in world or economic events and changes in the strategies Chesme uses to construct client portfolios. The Firm offers to meet with its clients at least annually, or more frequently at the client's request, during which time the client's performance, asset allocation and investment objectives, both current and future, are reviewed. Annual reports are

provided to clients and include an evaluation of the account's performance over the past two years.

The investment options offered to retirement plan clients are formally reviewed by the Investment Committee based on the frequency specified in the client's IPS. Chesme provides retirement plan clients with quarterly fi360® reports which includes an investment snapshot, holding summary, including scoring of each holding based on pre-determined criteria, watch list items and information on the models Chesme offers to plan participants. This reporting is also discussed during meetings with Plan Sponsors, which are held on at least an annual basis and more frequently at a client's request.

Item 14 – Client Referrals and Other Compensation

The Firm has, from time-to-time, engaged in solicitor relationships in accordance with the disclosure requirements Rule 206(4)-3 of the Advisers Act, but is not compensating any third party for referrals at this time.

Item 15 – Custody

Chesme does not maintain physical custody of client assets, although the Firm is deemed to have custody of assets if clients give it the authority to withdraw fees directly from their custodial accounts. Client assets must be maintained in an account at a qualified custodian - generally a broker-dealer, bank or trust company. A custodian is appointed by each client to have possession of the assets of the account, settle transactions for the account and accept instructions from the account's investment managers regarding securities trading in the account.

Clients should receive statements, at least quarterly, from the qualified custodian that holds and maintains client's investment assets. The Firm urges you to carefully review these statements.

Item 16 – Investment Discretion

The Firm's accepts discretionary authority when managing client accounts pursuant to each client's Investment Advisory Agreement. Clients may impose reasonable restrictions on the management of its account which are reflected in the client's IPS.

Neither the Firm nor any of its employees guarantees the investment performance of any asset.

Item 17 – Voting Client Securities

As a matter of Firm policy and practice, the Firm does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting

proxies for any and all securities maintained in client portfolios. Upon request, the Firm may provide advice and information to clients regarding the voting of proxies.

Item 18 – Financial Information

The Firm has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

Other Information

CLASS ACTIONS AND OTHER LEGAL PROCEEDINGS

Chesme does not monitor, advise or act for any client in legal proceedings, including, without limitation, class actions and bankruptcies. Clients should ensure that they have instructed their custodians to promptly forward to the client any communications relating to legal proceedings involving account assets.

PRIVACY NOTICE

Safeguarding client information is an issue we take seriously at Chesme Capital Management. To affirm our continuing commitment to the proper use of customer information, we have set forth the following Privacy Principles.

1. **Recognition of a Customer's Expectation of Privacy:** We believe the confidentiality and protection of customer information is one of our fundamental responsibilities. And while information is critical to providing quality service, we recognize that one of our most important assets is our customers' trust.
2. **Use, Collection, and Retention of Customer Information:** Chesme Capital Management limits the use, collection, and retention of customer information to what we believe is necessary or useful to conduct our business and provide quality service. Information collected may include, but is not limited to: name, address, telephone number, tax identification number, date of birth, employment status, annual income and net worth.
3. **Maintenance of Accurate Information:** We recognize the necessity of maintaining accurate customer records have established procedures to keep such information current and complete.
4. **Limiting Employee Access to Information:** Access to personal, non-public customer information is limited to those employees with a business reason to know such information. Employees are educated on the importance of maintaining the confidentiality of customer information and on these Privacy Principles.
5. **Protection of Information via Established Security Procedures:** Chesme Capital Management recognizes that a fundamental element of maintaining effective customer privacy procedures is to provide reasonable protection against the unauthorized access to customer information. Therefore, we have established appropriate security standards and procedures to guard against any unauthorized access to customer information.
6. **Restrictions on the Disclosure of Customer Information:** When it comes to sharing customer information with unaffiliated companies, we place strict limits on who receives specific information about customer accounts and other personally identifiable data. Chesme Capital Management may disclose any of the information it collects about customers (or has collected about former customers) to third parties who are not affiliated with Chesme Capital Management under the following circumstances:
 - As directed or authorized by the customer or customer representative;
 - As permitted by law, for example, to service providers who provide investment products or services to the customer, in order to effect or settle trades on the client's behalf, in connection with a regulatory audit or examination, or to respond to a subpoena or similar legal process;
 - To parties providing services to Chesme Capital Management, such as database service companies or data conversion companies. Such companies shall be contractually

prohibited from disclosing or using client information other than to perform the services contracted for.

7. **Disclosure and Notification of Privacy Principles to Customers:** Chesme Capital Management aims to ensure our clients are confident the firm's ability to manage their financial affairs expertly and confidentially. As a result of this commitment, we have developed these Privacy Principles which are readily available to our clients. If we change our Privacy Principles with regard to sharing your confidential information, we are required by law to notify you and provide a revised notice. Customers who have questions about these Privacy Principles or have a question about the privacy of their customer information should contact Chesme Capital Management's Chief Compliance Officer, Chuck Embs, at 517-669-1600 or e-mail him at chuck@chesme.com.