

## **Item 1 - Cover Page**

**March 28, 2024**

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**This brochure provides information about the qualifications and business practices of Advisor Partners II, LLC (“AP”). You should review this brochure to understand your relationship with our firm and help you determine to hire or retain us as your investment adviser. If you have any questions about the contents of this brochure, please contact us at 888-265-2257, [info@advisorpartners.com](mailto:info@advisorpartners.com) or [compliance@pathstone.com](mailto:compliance@pathstone.com). 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.**

**AP is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser. Additional information about AP also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Item 2 - Material Changes**

This Item of the brochure discusses only specific material changes made to the Brochure since the last filing and provides clients with a summary of such changes. This is our annual updating amendment filing to the Brochure with the following changes:

- ❖ We have updated Item 4 to disclose our Active Manager Allocation strategy.
- ❖ We have added additional disclosure in Item 12.F related to our trade rotation and step-out trades.

The last update of our Brochure dated September 5, 2023, had the following changes:

- Disclosures throughout this document have been updated to incorporate additional services we provide to our Clients and how we are compensated.
- This update reflects the new ownership of Pathstone Holdings, LLC which is owned by investment vehicles controlled by Kelso & Company and Lovell Minnick Partners.

*(Brochure Date: March 27, 2024,)*

*(Date of Most Recent Annual Updating Amendment: March 27, 2024)*

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. Currently, our Brochure may be requested by contacting Lisandra Wilmott, Chief Compliance Officer at (857) 305-3070 or [compliance@pathstone.com](mailto:compliance@pathstone.com).

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## **Item 4 - Advisory Business**

### **A. General Description of the Company**

Advisor Partners II, LLC (“AP”) (CRD# 321633) succeeded to the advisory business of its predecessor Advisor Partners, LLC (CRD#114536) in June 2022 and does business under the name of Advisor Partners. The predecessor’s business was founded in 2001. The advisory services and management of AP will remain the same and will continue the advisory business of the prior adviser in all respects.

AP, through Pathstone Intermediate Holdings, LLC is wholly owned by Pathstone Holdings, LLC which is owned by investment vehicles controlled by Kelso & Company (“Kelso”) and by Lovell Minnick Partners, LLC (“LMP”) as well as certain employees and clients of Pathstone both directly and indirectly. See our response to Item 10 for additional information regarding Kelso and LMP ownership.

AP provides discretionary investment advisory, sub-advisory and consulting services primarily to clients of registered investment advisers (“RIA”) and financial institutions through two distinct investment programs: Separately Managed Accounts (“SMA”) and Model Portfolio Consulting (“MPC”). AP also provides discretionary investment advisory and financial planning services directly to certain clients.

### **B. Summary of Advisor Partners’ Services**

AP invests primarily in exchange-traded equity securities, exchange-traded funds (“ETFs”), mutual funds, and American Depositary Receipts (“ADRs”). AP may also invest in other types of securities including, but not limited to, fixed income and fixed income ETFs, foreign securities, multi-currency/foreign exchange, ordinaries and real estate investment trusts (“REITs”); collectively, “Other Investments.” The “Methods of Analysis, Investment Strategies and Risk of Loss” item in this brochure contains further information about the investments and strategies employed by AP.

Depending on the type of product selected, AP generally tailors its advisory services to the individual needs of clients. For example, SMAs are generally highly customized based upon individual investment goals and objectives mutually agreed upon between AP, the RIA, and the client of the RIA. Clients may impose reasonable restrictions, mutually agreed upon by the client, the RIA and AP, on investing in certain securities or types of securities subject to the limitations further detailed in the “Investment Discretion” item.

### SMA

AP provides discretionary investment advice and management in the form of individually-managed accounts within its SMA program. AP constructs customized equity portfolios for clients of RIAs. Clients typically access AP's SMA services through an RIA where the RIA would select AP as a sub-adviser; or, clients may enter into an investment management agreement directly with AP. Each equity portfolio is tailored to the client's financial circumstances and preferences. The investments are made primarily in U.S. equity securities and ADRs and may include Other Investments. In instances where AP serves as a discretionary sub-adviser or as a portfolio manager in a wrap fee program, AP is fully disclosed to the client and performs discretionary advisory services under mandate from the client's financial advisor. When AP acts as a portfolio manager for a wrap fee program, AP receives a portion of the wrap fee for its services.

### MPC

AP's MPC services typically involve the construction of model portfolios used by the investment services departments of financial institutions. The models are typically benchmarked to an index incorporating screening criteria mandated by the institution. Models primarily consist of individual equity securities but may include Other Investments. AP may also provide consulting services to investment professionals, particularly registered investment advisers.

### Overlay Manager

As an Overlay Manager, AP is responsible for applying an overlay on a portfolio such as a tax-loss harvesting overlay, Environmental, Social and Governance ("ESG") overlay, and/or other factor screens as selected by the client or determined by AP to be consistent with the client's investment objectives. An investment advisor will provide the strategy and objectives of a given portfolio and the Overlay Manager manages the implementation, trading, reconciliation, and reporting. The investment adviser charges its own fees while AP receives a fee for its services as the Overlay Manager. Generally, the investment advisor will debit and collect their fee while AP separately debits and collects the overlay management fee directly from a client's account.

### Active Manager Allocation

Active Manager Allocation ("AMA") is a further enhancement of AP's Overlay Manager product. In AMA, an investment adviser stipulates the targeted asset allocation that AP manages the portfolio to. Part of the asset allocation may include allocations to third-party model managers. The investment adviser, and not AP, contracts with these third-party managers directly. As stipulated within the contract, these third-party managers share their models with AP so they can be properly implemented by AP within the AMA strategy. The investment adviser is ultimately responsible for the due diligence of the third-party managers and verification of these models. AP's role is only to

implement the models on behalf of the advisers. The use of these models results in additional fees that are then paid to third-party model managers. These fees are incremental to the fees specified by the fee schedule AP has in place with the investment adviser. While AP may assist in the calculation and debiting of third-party model manager fees, the investment adviser is ultimately responsible for paying fees to third-party managers.

#### Direct Discretionary Advisory and Financial Planning Services

AP provides personalized financial planning, asset allocation and discretionary advisory services to clients who enter into an investment management agreement directly with AP. AP's services are customized according to client investment goals and objectives. AP constructs customized equity and fixed income portfolios typically invested primarily in a custom mix of U.S. and Foreign Equity ETFs and Fixed Income ETFs.

### **C. Amount of Assets Under Management**

As of December 31, 2023, the firm reported \$3,382,642,421 in regulatory assets under management. In addition, AP advises on \$39,095,661 in Model Portfolios created by AP that are managed by other financial institutions. These assets are not managed by Advisor Partners and are not included in the regulatory assets under management figure reported herein or on Form ADV Part 1.

### **Item 5 - Fees and Compensation**

There is no set fee schedule for SMA, MPC, or direct advisory services. SMA Program Fees generally start at 35 bps (0.35%), and depending on investment strategy, product type, account size, and customization requirements, fees can be further negotiated. Our maximum fee will never exceed 1.0% per annum.

Fees for MPC services may be fixed or may be based on total aggregate percentage of assets which will be invested based on AP's advice. Fees are set and payable pursuant to the consulting agreement with each client and may be waived at AP's sole discretion.

The specific manner in which fees are charged by AP is established in a client's written agreement with AP or governed by the sub-advisory agreement with the third-party Adviser. Fees for each SMA and direct advisory account are typically paid quarterly in advance and are equal to a percentage of the client's account assets under AP's management, and are based on the average market value at each month end during the preceding quarter. Fees for each SMA may also be paid quarterly in arrears and are equal to a percentage of the client's total assets under AP's management, and are

based on the average market value of the assets on the last business day of the previous three months. The minimum quarterly fee is generally \$750 for each SMA, which may be waived at the sole discretion of AP.

Fees for all services are negotiable. AP's fees vary because AP's strategies are customizable and may vary in complexity or have additional constraints imposed by the client such as Environmental, Social and Governance ("ESG") criteria. An account accepted for management by AP that is less than the asset minimum described in "Types of Clients" below may still be subject to the minimum fee. Clients may elect to be billed directly for fees or to authorize AP to debit fees from a client's custodial account.

In addition to fees for advisory services, AP also is compensated for its administrative and execution services as an Overlay Manager in various Unified Managed Account ("UMA") programs. AP acts as the Overlay Manager for its affiliate, Pathstone, and receives compensation directly from their clients within the UMA program for these services in the form of the overlay manager fee.

As part of the AMA strategy, AP will assist with both the calculation and debiting of third-party model manager fees. The third-party model manager fees are separate and in addition to the overlay manager fee AP charges. The investment adviser is ultimately responsible for accuracy and payment of the model manager fees to third-party managers.

AP's fees are also exclusive of fees charged by a client's RIA, brokerage commissions, transaction fees and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers and other third parties such as 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 brokerage accounts and securities transactions. Mutual Funds and ETFs also charge management, shareholder servicing and/or 12b-1 fees, which are disclosed in each fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to AP's fee and AP does not receive any portion of these commissions, fees and costs.

A client, an RIA, or AP may terminate an advisory agreement for any reason upon effective written notice to either party. Upon termination of an account, prepaid, unearned fees will be promptly refunded and earned, unpaid fees will be due and payable.

Factors that AP considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions) are further described in the "Brokerage Practices" Item 12 in this brochure.

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

AP does not charge performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

### ***Item 7 - Types of Clients***

AP primarily provides discretionary investment advice and management to individual clients of RIAs (generally through a sub-advised relationship with the RIA). AP also provides investment advice and management to individuals, independent registered investment advisers ('RIAs'), family offices, and financial institutions.

AP generally requires a minimum of \$250,000 for each SMA account; however, AP may waive these requirements at its sole discretion.

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

AP uses a combination of qualitative and quantitative statistical analysis to build client-specific portfolios that track specific benchmarks. In managing individual accounts, AP uses a quantitative portfolio construction methodology with the objective of building a portfolio that fits the client's individual needs. The methods of analysis used by AP are unique to each client or SMA Program and are summarized below. Further details about AP's investment methodology may be obtained upon request.

#### **A. SMA Program**

An SMA is typically comprised of individual equity securities and ADRs. Each SMA is closely tailored to the client's specific financial circumstances and preferences. AP seeks to control risks, such as volatility and tracking error, through explicit measurement and management techniques. For example, a customized SMA may have custom individual securities weights and include or omit a given security, sector, capitalization or value-growth style. Relevant circumstances and preferences of each investor, such as livelihood, real estate holdings or other investments, can be considered in creating the account.

AP manages some SMAs that seek to closely track the performance of a benchmark index. In seeking to match the performance of an assigned index, AP typically does not invest in all constituents of



the index but will rather use its judgment to select a subset of index constituents that AP believes will closely match the performance of an index. This technique is commonly referred to as “sampling.”

Assigned account benchmarks can be custom designed to address the client’s specific financial circumstances and preferences such as livelihood, real estate holdings or other investments. For example, a client’s custom benchmark may be a re-weighted combination of commercial benchmarks with custom individual securities weights, and may include or omit a given security, sector, capitalization or value-growth style. AP uses investment research software from an unaffiliated third party to produce and test custom benchmarks as well as to analyze clients’ account performance.

AP investment personnel also use portfolio optimization software in portfolio construction, provided by an unaffiliated third-party. The software incorporates a multi-factor risk model and makes portfolio transaction recommendations based upon certain factors inherent in the model and pre-defined constraints such as transaction costs, taxes, tracking error and position size. The foregoing is not a complete description of all of the inputs, factors and constraints which are considered by the model.

Common examples of customized investment strategies employed by AP’s SMA clients are listed below. Due to the number of possible investment strategies that may be employed within an individual SMA, a complete list of all possible strategies available has not been provided. Additional examples may be obtained upon request.

*Active Tax Indexing:* While not exclusive to all SMAs managed by AP, most SMAs contain a tax-managed component. AP seeks to actively manage the taxable gains and losses both at inception and opportunistically thereafter based on a defined tax plan. The plan can include seeking losses within the account to offset gains from within or outside the client’s portfolio or realizing gains to offset losses outside the portfolio. The first strategy is generally achieved by “loss harvesting,” identifying and selling tax lots with high-cost basis. Conversely, a “gain-seeking” approach involves identifying tax lots with unrealized gains that would be most beneficial to realize according to the client’s objectives.

The ongoing tax plan incorporates the client’s preference to maximize tax results, more closely reproduce benchmark performance, or achieve a blend of each. Having an emphasis on maximizing tax outcome could result in selling positions in the client’s portfolio that are important to controlling

tracking error. As a result, accounts emphasizing tax outcomes tend to track their benchmarks less closely than accounts that are focused on closely reproducing benchmark performance.

*Thematic Beta Mandates:* Some of the SMAs managed by AP are designed to diversify away from a concentrated equity risk (such as a single stock or industry) or to focus on a specific set of attributes (such as high-quality dividend yielding equities or socially responsible companies, also called Environmental, Social and Governance or “ESG” companies). In these strategies, AP may attempt to replicate the performance of an index, while at the same time avoiding or favoring particular index constituents, sectors or style factors to achieve a diversified portfolio that reflects the client’s preferences.

## **B. Material Risks**

***Investing in securities involves the risk of loss that a client should be prepared to bear.*** The following describes certain material risks involved with each significant investment strategy, method of analysis and particular types of securities. The risks listed below are not all inclusive.

**Market Risk:** Equity and fixed income markets rise and fall daily. As with any investment whose performance is tied to these markets, the value of an investment will fluctuate, which means that a client could lose money.

**Equity Risk:** The prices of equity securities rise and fall daily. These price movements may result from factors affecting individual companies, industries or the securities market as a whole. In addition, equity markets tend to move in cycles, which may cause stock prices to fall over short or extended periods of time.

**Investment Style Risk:** Each strategy may follow a particular type or portion of the U.S. stock market (e.g., large cap, small cap, growth, value), as measured by the index selected by the client. It follows these stocks during upturns as well as downturns. Because of its indexing strategy, AP generally does not take steps to reduce market exposure or to lessen the effects of a declining market.

**Default Risk:** Cash balances typically are managed by a client’s custodian bank. AP may invest client cash balances in certain situations. AP may hold cash, invest in short-term debt securities or in other money market instruments for defensive purposes or in order to earn a return on available cash balances pending investment or reinvestment or in anticipation of redemptions.

**Non-Diversification Risk:** AP may construct client portfolios using a limited number of securities with varying weights depending on the desired investment strategy or solution. These portfolios may be subject to non-diversification risk. The price of any security held in a client account may decrease and AP may be unable to liquidate its position quickly or at a relatively advantageous price. As a result, losses incurred in any one security could adversely affect a client's performance to a greater degree than if a client had been invested in a more diversified portfolio.

**Portfolio Turnover Risk:** AP's taxed-managed strategies may involve frequent trading of securities. Depending on market and other conditions, the investment strategy may experience high portfolio turnover, which may result in higher brokerage commissions and transaction costs, which could reduce client investment returns, and capital gains.

**Credit Risk:** The values of the debt securities held in the strategy fluctuate with the credit quality of the issuers of those securities. Credit risk relates to the ability of the issuer to make payments of principal and interest when due. U.S. government securities are obligations of, or guaranteed by, the U.S. government, its agencies or government sponsored enterprises. U.S. government securities are subject to market and interest rate risk, and may be subject to varying degrees of credit risk. Some U.S. government securities are issued or guaranteed by the U.S. Treasury and are supported by the full faith and credit of the U.S. government. Other types of U.S. government securities are supported by the full faith and credit of the U.S. (but not issued by the U.S. Treasury). These securities have the lowest credit risk. Still other types of U.S. government securities are: (1) supported by the ability of the issuer to borrow from the U.S. Treasury; (2) supported only by the credit of the issuing agency, instrumentality or government-sponsored corporation; or (3) supported by the U.S. in some other way. These securities may be subject to greater credit risk. U.S. government securities include zero coupon securities, which tend to be subject to greater market risk than interest-paying securities of similar maturities.

**Interest Rate Risk:** When interest rates change, the value of the strategy's holdings will be affected. An increase in interest rates tends to reduce the market value of debt securities, while a decline in interest rates tends to increase their values. Securities with longer durations tend to be more sensitive to interest rate changes than securities with shorter durations.

**Changes in Debt Ratings:** If a rating agency gives a debt security a lower rating, the value of the security may decline because investors may demand a higher rate of return.

**Tracking Error Risk:** For clients who have selected an indexing strategy, AP seeks to track the performance of a selected index. AP may not be successful doing this. The divergence between the

performance of an account and its index, positive or negative, is called “tracking error.” Tracking error can be caused by many factors and it may be significant.

**ETF Risk:** Shares of ETFs may trade at prices other than net asset value (“NAV”). ETF shares may be bought and sold in the secondary market at market prices. There may be times when the market price and the NAV vary significantly. AP may pay more than NAV when it buys shares of an ETF in the secondary market, and AP may receive less than NAV when it sells those shares in the secondary market.

**Foreign Investment Risk:** Foreign investments face the potential of heightened illiquidity, greater price volatility and adverse effects of political, regulatory, tax, currency, economic or other macroeconomic developments.

**Model Risk:** AP’s quantitative models may not produce the results intended which may cause an investment strategy to not meet its stated objective. Separately, some models are constructed and provided by third-party managers. These models may not have the results intended by the third-party manager. AP is not responsible for the due diligence of the third-party managers nor for the verification of the models provided by third party managers where the third-party manager is contracted by the investment adviser.

**Liquidity Risk:** A particular investment may be difficult to purchase or sell. AP may be unable to sell illiquid securities at an advantageous time or price.

**Tax-Management Strategy Risk:** The tax-management strategies may alter investment decisions and affect portfolio holdings, when compared to those of non-tax managed strategies. In addition, AP may have incorrect tax basis information from a client, which could cause AP to purchase or sell securities in a way that may not maximize taxable benefits.

### **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 AP or the integrity of AP’s management. *AP has no such reportable legal or disciplinary events.*

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

AP is related to Pathstone (CRD# 151736) as a result of common control and ownership. Pathstone, through Pathstone Intermediate Holdings, LLC is a multi-family office investment advisory practice wholly owned by Pathstone Holdings, LLC. AP provides sub-advisory and Overlay Manager services to Pathstone and is compensated for these services either by Pathstone itself or via direct debit from Pathstone's clients.

As of May 15<sup>th</sup>, 2023, ownership of Pathstone Holdings, LLC now includes investment vehicles controlled by Kelso and LMP. LMP is an SEC registered investment adviser. Additionally, Pathstone has entered into a term loan agreement with Madison Capital Funding LLC, a SEC registered investment adviser which is ultimately owned by New York Life Insurance Company ("NYLIFE"). LMP and NYLIFE provide investment products and services that could potentially be marketed to or used by Pathstone's clients, which could create a conflict of interest in light of Pathstone's relationships with LMP and NYLIFE. Pathstone has no current intention, and does not expect, to purchase for or recommend to its clients any products or services offered by LMP or NYLIFE. If this should change, Pathstone will fully disclose this potential conflict directly to any affected client or clients before making any such purchase or at the time of or before making any such investment recommendation.

AP is affiliated by common control and ownership to Willow Street, a Wyoming based trust and fiduciary services firm.

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

Pursuant to SEC rule 204A-1, AP has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to its clients under the Investment Advisers Act of 1940, as amended. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, strict limits on personal trading intended to avoid actual or apparent conflicts with any client's interests, including the maintenance of a do-not-trade list in specific securities and, for securities not on that list, a ceiling on permitted dollar amounts and a required restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at AP must comply with and acknowledge the terms of the Code of Ethics annually, or as amended.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of AP will not interfere with (i) making decisions in the best interest of

advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code of Ethics, certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of AP's clients. In addition, the Code of Ethics requires pre-clearance of certain transactions and discusses the maintenance of a Restricted List of securities employees are prohibited from investing in. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics and is reasonably designed to prevent conflicts of interest between AP and its clients.

AP's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Lisandra Wilmott, Chief Compliance Officer via email at [compliance@pathstone.com](mailto:compliance@pathstone.com).

## **Item 12 - Brokerage Practices**

### **A. Selection and Ongoing Monitoring of Broker-Dealers**

Through its brokerage discretion, AP is authorized to place trades in various manners including through different broker-dealers for most client accounts. Selection of the broker-dealer used for executing transactions is dependent on several factors driven primarily by the client choice of custodian to hold their assets. AP has relationships with many custodians. AP will inform its RIA client which custodians are available; however, the clients make the actual selection. When a client chooses a custodian that is compensated for its custodial services through trading commissions, such as those discussed in Section F. Trade Practices, it is most cost effective to the client to trade through the custodian's broker-dealer.

The custodian/trading relationships maintained by AP offer competitive trading costs, electronic order execution, and competent back-office support including technological links with AP's information systems.

### **B. Best Execution**

As a fiduciary, AP has an obligation to use its best efforts to seek to obtain the best qualitative available price and most favorable execution given the circumstances with respect to all portfolio transactions placed by AP on behalf of its clients. This process is commonly referred to as "best execution."

Unless otherwise agreed to or as discussed in Section F. Trade Practices, AP has discretion to place buy and sell orders with or through such brokers or dealers as it deems appropriate. Our general policy is to place client trades with their broker custodian (e.g., Schwab, Fidelity, etc.) as we believe, based on our reviews, the broker custodian is providing the best overall deal for the client, and they remain competitive in relation to executions and the cost of each transaction.

Although AP seeks to obtain best execution for clients' securities transactions, we are not required to solicit competitive bids and we are not obligated to seek the lowest available commission cost. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the overall best qualitative execution, taking into consideration the full range of a broker-dealer's services, including among other things, the services provided to clients, execution capability, commission rates, and capital strength and stability. Consistent with the foregoing, AP may not necessarily obtain the lowest possible commission rates for client transactions.

AP performs periodic evaluations of our trading practices and the broker/custodians utilized in AP's ongoing effort to help ensure that it is fulfilling its best execution obligation.

### **C. Research and Other Soft Dollar Benefits**

AP has not entered into any formal arrangements with a broker-dealer, such as a commission sharing arrangement or traditional soft-dollar arrangement, in which AP could cause a client to pay a higher commission (i.e., pay up) to a broker-dealer which provides brokerage and research and other services to AP on behalf of its clients. Additionally, AP has not entered into any arrangements with a broker-dealer whereby (i) AP directs a certain amount or type of brokerage to a particular broker-dealer in exchange for soft dollar benefits or (ii) AP generates credits with a particular broker-dealer in exchange for soft dollar benefits.

The broker-dealers we recommend to clients provide AP with access to its institutional trading and custody services, which are typically not available to retail investors. These brokerage services include the execution of securities transactions, research, 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. Other benefits we may receive include receipt of duplicate client confirmations; access to a trading desk that exclusively services its participants; access to block trading which provides the ability to aggregate securities transactions and then allocates the appropriate shares to client accounts; and access to an electronic communication



network for client order entry and account information. However, none of these services are pursuant to a soft-dollar relationship.

#### **D. Directed Brokerage**

As disclosed above in this Item 12, AP permits clients to direct brokerage. In such cases, the client is generally responsible for negotiating the terms and conditions (including, but not limited to, commission rates) relating to all services to be provided by the broker-dealer to the client's satisfaction with such terms and conditions. Typically, AP is unable to achieve best execution of client transactions in these situations. Furthermore, this practice may cost clients more money. Although AP may recommend that clients establish accounts with certain custodians, it is the client's decision to establish accounts or custody assets with that broker-dealer.

#### **E. Aggregation of Orders**

Where possible and advantageous to clients, AP will seek to aggregate or "bunch" transaction orders for several clients and allocate the trades, on a fair and equitable manner, across participating accounts. AP has adopted procedures to address this practice which generally apply in instances in which securities may be appropriate for more than one client or account of AP. The procedures are designed to help ensure that investment opportunities are allocated in a manner that is fair and equitable to each client and that no client or account of AP is improperly favored over any other client or account.

#### **F. Trade Practices**

**Step-Outs.** In certain situations, AP may determine that performing a block trade step-out is most advantageous for its clients. These situations include limiting market impact, managing thinly traded/illiquid securities, and speed of execution to limit implementation shortfall. A step-out trade occurs when an executed trade is transferred or "stepped out" from the custodian of record to another broker for execution and settlement. In these situations, the block trade will be effected with a specific broker, therefore resulting in clients' accounts being traded away. There could be additional costs associated with step-out trades.

**Trade rotations.** AP may also determine to trade accounts on a rotational basis among the various custodians of clients' accounts. This is to limit market impact and provide fair & equitable treatment of execution, irrespective of where accounts may be custodied. Transactions for all clients utilizing



the same custodian will typically be aggregated/blocked together for execution purposes. AP utilizes a random generator to determine the rotational basis each time.

## **G. Principal and Cross Transactions**

It is AP's policy that the firm will not effect any principal or agency cross securities transactions for client accounts. AP will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

## **Item 13 - Review of Accounts**

AP formally reviews client account activity, performance and positioning at least monthly. Accounts are reviewed on an ongoing basis for available cash, tax-loss harvesting opportunities (as applicable), and compliance with client-specific restrictions, if any. Cash, compliance and harvesting opportunities are also reviewed at least monthly. AP's Investment Committee ("IC") reviews the integrity of management processes each quarter comparing accounts' results versus expectations and researching account-specific results in detail. The IC evaluates and recommends portfolio management processes in order to ensure portfolio composition is consistent with each client's investment guidelines and aligns with target asset allocations. A client account is also reviewed when a significant development concerning an investment occurs, or at any time when AP receives notice from the client or the client's RIA that a material change has occurred with respect to the client which would impact the client's portfolio, its investment objective or asset value.

Individual clients of AP's SMA Program are provided with quarterly reports electronically via access to a secure website. All reports contain summary statistics including, but not limited to, inception date, current market value, percentages held in equities and cash and portfolio mandate. The portfolio mandate varies by account type. For example, each SMA has a portfolio goal (e.g., broad market, large cap) measured against a specific benchmark. Quarterly reports for individual SMA

clients may include charts and/or tables detailing portfolio holdings, sector exposure, portfolio performance measured against a benchmark and net realized gains and losses.

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

AP does not pay or compensate any third party for client referrals.

#### ***Item 15 - Custody***

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains the client's investment assets. AP urges its clients to carefully review such statements and compare such official custodial records to the account statements that AP may provide to its clients. For those clients who receive statements directly from AP, AP's statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

#### ***Item 16 - Investment Discretion***

Within the SMA Program, AP is generally retained to provide discretionary advice with respect to client accounts and is authorized to make the following determinations in accordance with a client's specific investment objectives without client consultation or consent before a transaction is effected: selection of the identity and amount of securities to be bought and sold; and the prices at which securities are to be bought or sold.

A client may specify which types of securities, or individual securities, that the client does or does not want held in an account. AP will take reasonable steps to comply with such restrictions upon effective written notification of such restrictions. AP, at its sole discretion, may decline to open or maintain a client account if restrictions placed on the account by the client cause the account's characteristics to materially differ from other accounts invested in a similar investment strategy or if AP does not have sufficient expertise or capabilities to manage such an account. Client investment guidelines and restrictions must be provided to AP in writing.

Within the MPC program, AP generally does not accept investment discretion.

## **Item 17 - Voting Client Securities**

### **A. Proxy Voting**

As a fiduciary, AP owes its clients duties of care and loyalty in proxy voting. For clients who direct AP to vote proxies on their behalf, AP will monitor corporate events and vote these proxies as needed. To satisfy its duty of loyalty, AP will cast proxy votes in a manner consistent with the best interests of its client and AP will not seek to place its interests ahead of its clients.

AP has retained Broadridge Investor Communication Solutions, Inc., (“Broadridge”), an independent third party, as proxy adviser and voting agent to assist with monitoring, researching, making voting recommendations, and voting proxies. Broadridge provides AP’s Investments team with analysis and recommendations in regard to voting proxies, according to a set of pre-determined policy guidelines. AP retains the right to vote any agenda item in a ballot in a different manner in the event that AP does not believe that a Broadridge recommendation is in the best interest of its clients. Once ballots have been voted, Broadridge provides AP with proxy voting records on an aggregated basis for AP’s clients.

The AP Investments team will monitor and resolve possible material conflicts of interest, if any, between AP and those of its clients with respect to proxy voting. Since AP’s voting guidelines are predetermined by AP’s Investments team using recommendations from Broadridge, possible conflicts of interest should, in most instances, be adequately addressed.

Clients may obtain a copy of AP’s and/or Broadridge’s complete proxy voting policies and procedures and information about how AP voted any proxies on behalf of their account(s) upon request. Clients who authorize AP to vote proxies on their behalf may not generally direct AP’s vote in a particular solicitation, except at AP’s sole discretion.

For clients who have not authorized AP to vote proxies, clients will receive proxy materials directly from their custodian or transfer agent. Clients may contact AP with questions about particular solicitations at the address and telephone number on the front page of this brochure.

### **B. Class Action Lawsuits**

From time to time, securities held in client accounts may be the subject of class action lawsuits. AP has no obligation to determine if securities held by the client are subject to a pending or resolved class action lawsuit. AP also has no duty to evaluate a client’s eligibility or to submit a claim to

participate in the proceeds of a securities class action settlement or verdict. Furthermore, AP has no obligation or responsibility to initiate litigation to recover damages on behalf of clients who may have been injured as a result of actions, misconduct or negligence by corporate management of issuers whose securities are held by clients. In the event AP receives written or electronic notice of a class action lawsuit, settlement or verdict affecting securities owned by a client, it will forward, to the extent practicable, all notices, proof of claim forms and other materials to the client (or client representative), unless alternative written arrangements have been mutually agreed to.

### ***Item 18 - Financial Information***

AP 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.