

## Part 2A of Form ADV: Firm Brochure



# Closed-End Fund Advisors, Inc.

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Updated: *March 2024*

This brochure provides information about the qualifications and business practices of Closed-End Fund Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at (804) 288-2482 and/or [info@CEFadvisors.com](mailto:info@CEFadvisors.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.

Closed-End Fund Advisors, Inc. 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 Closed-End Fund Advisors, Inc. is available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Closed-End Fund Advisors, Inc.

## Item 2: Material Changes

### **Annual Update:**

The *Material Changes* section of this brochure will be updated annually and when there are material changes at the Firm since the previous release of this Brochure. We will provide you with a new Brochure as necessary based on these changes or new information, at any time, without charge.

### **Material Changes Since Last Annual Update:**

Since the last annual update to Part 2A of Form ADV was made in March 2023, the following material changes were made:

- Item 4 (Advisory Business) – A model portfolio (CEFA Non-Profit Foundation Diversified Income) was added in the “Account Structure & Model Overview” section.
- Item 8: Methods of Analysis, Investment Strategies and Risk of Loss-a description detailing the portfolio model CEFA Non-Profit Foundation Diversified Income was added under the sub-heading “Active CEFA Managed Portfolio Models”.
- In September 2023 we removed all references to TD Ameritrade, Inc. due to the transition of moving our clients’ managed accounts away from TD Ameritrade, Inc., to Charles Schwab & Company, Inc. In November 2019, the two firms announced they had entered into a definitive agreement for Charles Schwab & Company, Inc. to acquire TD Ameritrade in an all-stock transaction. As a result of that acquisition, accounts previously held at TD Ameritrade are now Charles Schwab & Company, Inc. accounts. Subsequently, we updated Item 12 of this brochure to remove references to TD Ameritrade and replaced them with Charles Schwab.

### **How to Get an Updated Brochure:**

Currently, our Brochure may be requested by contacting David Carter, General Counsel at (804) 288-2482 or [dcarter@CEFadvisors.com](mailto:dcarter@CEFadvisors.com). Our most up-to-date Brochure is always available on our web site [www.cefadvisors.com](http://www.cefadvisors.com), at the bottom of the “Why Invest with Us” page.

Additional information about Closed-End Fund Advisors is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about any persons affiliated with Closed-End Fund Advisors who are registered, or are required to be registered, as investment adviser representatives of Closed-End Fund Advisors.

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## Item 4: Advisory Business

### Overview:

Closed-End Fund Advisors, Inc. ("CEFA" or the "Firm") is a fee-based registered investment advisory firm focused on investment management services and was founded on March 15, 1989. The Firm has been located in Richmond, Virginia since October 1997 and has four full-time employees.

Before retiring, the Firm's former principal's background included 27 years on the Board of Directors for a closed-end fund (1976-2003) while co-authoring *"Investing in Closed-End Funds; Finding Value and Building Wealth"* (NY Institute of Finance: 1991). In addition to the Firm's CEF data service John Cole Scott founded the largest CEF focused group on LinkedIn *"The CEF Network"* and a blog, *"Closed-End Fund Education & Ideas."* CEFA has 35 CEF/BDC indexes: 11 Diversified Portfolio, 9 Equity sector, 9 Taxable Bond Sector, and 6 Tax-Free Bond Sector Indexes. ([www.cefddata.com/index](http://www.cefddata.com/index)).

### CEFA's Team:

- ❖ President, Chief Investment Officer ("CIO") & Chief Compliance Officer ("CCO"): *John Cole Scott*
- ❖ General Counsel and Compliance Associate: *David W. Carter*
- ❖ Executive Assistant: *Jennifer Rickman Campbell*
- ❖ Portfolio Manager & Investment Advisory Representative: *Daniel Silver*

The Firm manages assets by primarily selecting an assortment of closed-end funds when combined seek to meet a client's investment goal. They research closed-end funds that best meet a client's objectives, often swapping funds in similar sectors as well as adjusting the asset allocation mixture for each model as market conditions change. When needed to fulfill an investment objective, mutual funds, exchange traded funds or common stocks can be utilized for client accounts.

### What Is a Closed-End Fund?

First listed in the United States in 1893, a closed-end fund is a publicly traded investment company that invests in a variety of securities such as stocks and bonds. The fund typically raises capital through an initial public offering ("IPO"). Fund assets are then invested according to the fund's investment objectives. "Closed" refers to the fact that, once the capital is raised, there are typically no more shares available from the fund sponsor and the issuance of new shares is closed to investors.

After the IPO, most closed-end funds are listed on a national exchange, where the shares are purchased and sold in transactions with other investors, not with the sponsor company itself. When an investor wishes to purchase or sell shares of a closed-end fund, the investor finds buyers or sellers on an exchange such as the NYSE or the NASDAQ, just like a stock. Unlike a stock, the typical closed-end fund represents a strategy with an actively managed selection of holdings chosen by the portfolio manager. These investments in securities collectively add up to a value, known as its Net Asset Value ("NAV") that typically will be different from the fund's market price. The market price

is determined by supply and demand, not the fund's net asset value. This creates either a discount or premium to net asset value in a fund's price. Fund shares can be purchased intraday with market, limit, stop-loss and good-till-cancelled orders. CEFs are considered by the Firm as the best way to capture market inefficiencies for a client's benefit.

With approximately 755 funds and \$752 billion in gross assets (12/31/2023) for the complete universe of listed and non-listed CEFs and BDCs, approximately one-third of listed closed-end funds are municipal (tax-free) bond funds with about half of these being state specific and half national funds. One-third of closed-end funds are in the taxable bond sector, and the remaining one-third are US equity, international equity and specialized equity funds. As of 12/31/2023, there were 47 listed BDCs available to investors and 92 non-listed or private BDCs. Listed and non-listed closed-end funds and BDCs cover just about every investment sector and even a few that are specialized and unique to the universe.

**Assets of Closed-End Funds by Type, End of Period**  
Millions of dollars

|                              | 4Q 2023        | 3Q 2023        | 2Q 2023        | 1Q 2023        |
|------------------------------|----------------|----------------|----------------|----------------|
| <b>Total Trad CEF Equity</b> | <b>126,398</b> | <b>118,133</b> | <b>124,485</b> | <b>122,538</b> |
| U.S. Equity                  | 28,404         | 26,320         | 27,721         | 26,620         |
| Non U.S. Equity              | 9,425          | 9,194          | 9,689          | 9,596          |
| Hybrid / Balanced            | 11,687         | 10,943         | 11,613         | 11,313         |
| Specialty Equity             | 76,882         | 71,676         | 75,462         | 75,009         |
| <b>Total Trad CEF Bond</b>   | <b>112,208</b> | <b>104,803</b> | <b>110,138</b> | <b>110,682</b> |
| Taxable Bond                 | 55,627         | 53,697         | 54,407         | 54,373         |
| National Municipal           | 43,841         | 39,558         | 43,085         | 43,174         |
| Single State Municipal       | 12,740         | 11,548         | 12,646         | 13,134         |
| <b>Total Traditional CEF</b> | <b>238,606</b> | <b>222,936</b> | <b>234,623</b> | <b>233,219</b> |
| <b>Debt Focused BDC</b>      | <b>59,834</b>  | <b>58,682</b>  | <b>57,621</b>  | <b>57,184</b>  |
| <b>Equity Focused BDC</b>    | <b>408</b>     | <b>389</b>     | <b>423</b>     | <b>419</b>     |
| <b>Total BDC CEF</b>         | <b>60,242</b>  | <b>59,071</b>  | <b>58,044</b>  | <b>57,604</b>  |
| <b>CEF GRAND TOTAL</b>       | <b>298,848</b> | <b>282,007</b> | <b>292,667</b> | <b>290,823</b> |

*All data used is from our CEFData.com unless otherwise noted.*

## **What is a Business Development Company?**

BDCs are closed-end funds that provide small, growing companies access to capital. BDCs were created by Congress in 1980 to provide an opportunity for individual, non-accredited investors to participate in private investments.

Listed BDCs (just like traditional closed-end funds) offer 1940 Act investment company status/regulation, fixed capital, active management, daily liquidity, tax advantages, plus earnings are passed through to investors in the form of dividends and distributions (similar to REITS and MLPs).

BDCs leverage is limited to 200% (\*150%) asset coverage= total assets/total debt or "one turn" of leverage, excluding SBIC facilities (BDCs)- this is higher than other CEFs. BDCs typically have a higher fee structure with carry.

## **Account Structure & Model Overview:**

CEFA uses separate account management for each client at qualified third-party custodians. This means that each client has an account titled in their name at a custodian independent to the Firm in which CEFA is authorized to manage on the client's behalf. The Firm currently has 14 Diversified and 2 Sector models. Models can be adjusted to bring out various traits if needed. Examples can include: Taxable vs Tax-Deferred accounts, lowering a models' Beta, or selecting funds that only pay monthly. They help us in managing a client's account in accordance with their specific investment goals and risk tolerances:

- ❖ International Opportunity
- ❖ Diversified Equity
- ❖ Diversified Growth
- ❖ Hybrid (High) Income
- ❖ Discount Opportunity
- ❖ Alternative Income
- ❖ Foundation/Balanced
- ❖ Taxable Bond & BDC
- ❖ Dividend Confidence Model
- ❖ Diversified Low Beta
- ❖ Low Correlation
- ❖ Diversified Tax-Sensitive Income
- ❖ BDC Select
- ❖ Select Municipal
- ❖ CEFA Select Six Pack Income
- ❖ CEFA Non-Profit Foundation Diversified Income

The Firm's portfolio management approach can be described as a *blend* of fundamental research for selecting the asset allocation percentages for each model as well as technical analysis to assist in the timing and price for purchase and sale of the various funds held in an account.

## **Research Articles & Webcasts:**

Historically the firm has published on Seeking Alpha and WealthManagement.com in addition to our blog ([www.cef-blog.com](http://www.cef-blog.com)). In recent years we have focused on creating content through our founding membership in The Active Investment Company Alliance (AICA – [www.AICAlliance.org](http://www.AICAlliance.org)). We sponsor and coordinate the weekly NAVigator Podcast. We have found this a great opportunity to increase our coverage of closed-end fund ideas and trends in addition to engaging in a dialogue with closed-end fund investors and investment professionals. We also have continued our quarterly research and closed-end fund review and outlook webcasts for 45+ consecutive quarters in order to help fill the void in current closed-end fund coverage. More can be found on our webinar page: [www.cefadvisors.com/webinars.html](http://www.cefadvisors.com/webinars.html). The research articles and webinars are a free service.

### **CEF Data Service:**

The Firm offers a weekly data service, *CEFA's Closed-End Fund Universe*, also known as *CEFData.com*, archived since March 2012, which is used to improve the management of client assets, peer to peer-group comparisons and in tracking the closed-end fund industry from a historical perspective. The service covers hundreds of data points per fund for US listed traditional closed-end funds and BDCs, as well as non-listed CEFS and BDCs (Interval and Tender Offer Funds). *The CEF Universe* is a paid subscription service on our website for individuals and investment professionals.

The service does not give specific recommendations or ratings of funds. Data service fees are usually paid via credit card, but subscription payments can be made via check with the Firm's prior approval. The firm's principals have the authority to offer free or discounted rates on the CEF Universe report when warranted. Payments are made in advance for access to the weekly data.

### **CEFData Premium Service:**

CEFData.com is the premium web-based extension of CEF Advisors' CEF Universe project. We currently collect and produce data points for US listed traditional closed-end funds and for Business Development Companies (BDCs). Our current offering is weekly XLS and PDF files with our expansive data coverage for the universe of funds and a Daily CEF/BDC News and SEC Filings Alert service. You can learn more about this offering on our main website:

[www.cefadvisors.com/universe.html](http://www.cefadvisors.com/universe.html)

Subscription pricing for the premium CEFData.com service depends on the type of subscriber (i.e., individual investor, small RIA, or hedge fund) and ranges from \$5,000 - \$40,000 per year. Please contact CEFA for a quote.

### **Active Investment Company Alliance:**

CEFA is a founding member of the Active Investment Company Alliance (AICA). AICA is a 501(c)(6) non-profit trade association for listed closed-end funds, business development companies, interval and tender offer funds. Membership will be broad-based globally across fund sponsors (member firm who manages a closed-ended management company, BDC or equivalent), or product sponsors (member firm who manages an investment product: open-end, UIT, ETF, CEF, SMA, LP where the underlying investments are focused on closed-ended management companies, BDC or equivalent).

### **Firm Services:**

CEFA specifically does not engage in financial planning services, as it is an investment management firm. The Firm manages both taxable as well as tax-deferred and tax-free accounts. As the Firm's expertise is in analyzing and the utilization of closed-end funds for client investment objectives, there are limitations in CEFA's ability to serve clients interested in a portfolio manager that has expertise in individual common stocks or traditional fixed income securities. The Firm does not offer insurance products including variable or fixed annuities. CEFA offers, with limited availability to no more than five research-related services clients, consulting on a retainer or hourly schedule. See Item 5 in this



brochure for more information.

### **Account Individuation:**

While CEFA maintains twelve portfolios composites which most clients are assigned, each account and model is allowed to have specific additions or changes to the investment objective. This could be used to avoid a sector (like REITs) when the client is a commercial real estate / REIT attorney and does not want the extra exposure to the sector in their portfolio. In addition, clients sometimes request a type of investment be included in their account, like individual stocks, not followed by the Firm, which would preclude them from inclusion in one of the Firm's composites. As long as the Firm's principals agree that the client's request is prudent and the Firm is comfortable handling the management of the asset, we will modify a client's account as needed to fulfill their investment goals. CEFA can tailor its advisory services based on a client's needs and objectives. Investment guidelines and restrictions must be provided to CEFA in writing prior to entering or at the time of entering an engagement. Additionally, as a client's risk tolerance, financial conditions, marginal tax rate or investment objectives change, the Client should ensure to provide updates in writing to its investment guidelines and any restrictions.

### **Typical Account Types:**

CEFA deals primarily in the following account types: Individual, Trust, Partnership, Roth IRA, SEP IRA, Simple IRA, Rollover IRA and Defined Benefit Plans. The account types that the Firm is least interested in managing include non-self-directed 401(k), 403(b) and other similar corporate retirement accounts.

### **Portfolio Composites:**

CEFA maintains composites for all of its portfolio models. We calculate composite performance returns net of the Firm's fees and brokerage commissions on a time-weighted basis. Each client account is placed in a composite unless the account has management or allocation characteristics making it inconsistent with one of CEFA's portfolio models. Composites are used to produce figures for public reporting of performance in CEFA's marketing materials and with investment databases. Accounts are entered into a composite 90 days after being assigned to the specific portfolio model's investment objective.

### **Personally Identifiable Information:**

All information collected by CEFA for clients will be treated in the strictest confidence. CEFA will not voluntarily disclose confidential information to third parties without the clients' prior consent, unless required by law or regulatory agency directive. In the event that the client information is no longer retained by CEFA, the Firm will take responsible measures to destroy client information.



### **Firm Ownership:**

John Cole Scott owns 100% of the Firm's common stock. There are no intermediate subsidiaries.

### **Firm Assets, Accounts & Households:**

As of January 31, 2024, CEFA managed approximately \$159,039,289 in assets for 148 active accounts or around 80 Clients. The Firm manages both discretionary (\$90,067,831) and non-discretionary (\$68,971,458) assets.

### **More Information on CEFA:**

Prospective clients are encouraged to attend an on-demand session of the webinar: *"Why Hire CEFA as Your Portfolio Manager"* and *"The ABCs of BDCs and CEFs"* located on our website:

[www.cefadvisors.com/webinars.html](http://www.cefadvisors.com/webinars.html).

## **Item 5: Fees and Compensation**

CEFA charges an asset-based fee for its portfolio management services. CEFA charges its fee in advance of any services rendered at the beginning of each calendar quarter. These fees are directly deducted from the client's account (see example below). The fee is calculated by using the account value on the last day of the previous quarter. If an account is opened during a quarter, the quarter's fee is prorated based on the number of days CEFA will be actively managing the account. There are no back-end fees or lock-up periods. If a client closes their account during a quarter, then CEFA will return to the client any unearned fees on a pro-rata basis (see Account Termination section below). For example, if the client pays their fee in advance and closes their account exactly half-way into the quarter then CEFA will return 50% of the fee paid up-front.

Fees are directly deducted from client accounts, though clients are welcome to choose which accounts are debited for fees. For example, some clients prefer to pay IRA fees out of a taxable account. Management fees are calculated by multiplying one-fourth by the appropriate fee schedule below:

### **Direct Client / Individual Investor Fee Schedule**

| Regular Client Billing    |          |
|---------------------------|----------|
| Assets Under Management   | Fee Rate |
| \$2,000,000 - \$5,000,000 | 1.00%    |
| \$5,000,001-\$10,000,000  | 0.85%    |
| Over \$10,000,000         | 0.65%    |

| Small Account Billing   |          |
|-------------------------|----------|
| Assets Under Management | Fee Rate |
| First \$50,000          | 2.50%    |
| Next \$50,000           | 2.25%    |
| \$100,000 - \$500,000   | 2.00%    |
| \$500,001 - \$1,000,000 | 1.75%    |
| \$1,000,001-\$1,999,999 | 1.25%    |

| Municipal Models Client Billing     |          |
|-------------------------------------|----------|
| Assets Under Management             | Fee Rate |
| Accounts \$3,500,000 to \$5,000,000 | 0.50%    |
| Accounts over \$5,000,000           | 0.39%    |

CEFA takes small accounts alongside other household or family assets. CEFA has a stated household minimum investment value of \$2,000,000. When an account managed by the Firm is valued less than \$2,000,000, the Firm has the option to charge the Small Account Billing Rate as long as the rate is included in the client's investment advisory contract.

Disclosure: Similar investment advisory services may be offered by other advisers at a lower rate.

### **Institutional / Sub-Advisor Fee Schedule**

Accounts that qualify for Institutional/Sub-Advisor Fee Schedule: CEFA is not the advisor in these instances as is only acting as the Investment Manager.

- ❖ Other Registered Investment Advisory Firms
- ❖ Investment Companies as defined in The Investment Company Act of 1940
- ❖ Investment Adviser Representatives
- ❖ Hedge Funds (Limited Partnerships)

| Institutional Billing     |          |
|---------------------------|----------|
| Assets Under Management   | Fee Rate |
| First \$2,000,000         | 0.650%   |
| \$2,000,001-\$5,000,000   | 0.50%    |
| \$5,000,001 - \$7,500,000 | 0.400%   |
| \$7,500,001-\$10,000,000  | 0.350%   |
| Over \$10,000,000         | 0.300%   |
| Municipal Models          | 0.250%   |

At CEFA, each client pays their pre-determined quarterly fee for our advisory services as well as custodial and trading costs. In some cases, CEFA may elect to pay some or all transaction fees for a client account. In those cases, Charles Schwab will not charge fees to the clients account, but will bill CEFA directly for those costs on a periodic basis.

*Senior Management reserves the right to offer discounted fees or account minimums for clients. Fees may be negotiable in certain circumstances. The maximum fee allowed is 2.50% annualized of the account's present value.*

CEFA is compensated primarily from these professional fees paid by its clients. The Firm does not receive any sales fees, referral fees or other forms of compensation from any third party on securities, investment selections and/or allocations. Client accounts are not aggregated when determining the breakpoints noted in the above fee schedule.

### **Research Retainer / Hourly Consulting:**

The Firm can offer a consulting arrangement with institutional clients in need of a closed-end fund expert on retainer. Current minimum institutional fees are \$5,000 per quarter up to 20 hours and individual investor fees are \$1,750 per quarter for 6 hours of personalized consulting. We currently limit this to a maximum of five relationships at a time. Our primary fiduciary responsibility is always to our managed account clients, and we treat research clients second to them. However, we will never recommend a closed-end fund to a research client we are selling or have recently sold in a portfolio composite without written disclosure and documentation to our research clients.

Consulting fees can be waived or reduced by senior management. CEFA's data manager is billed out at \$100 an hour, data analysts at \$50 an hour and John Cole Scott is billed out at \$500 an hour for consulting projects for individuals and \$825 an hour for consulting projects for professional institutions. Dan Silver, CFA is billed out at \$295 an hour for individuals and \$495 an hour for institutions.

### **Account Termination:**

Clients have the right to terminate CEFA's services by delivering written notice to that effect bearing their signature. If a client terminates an account, the previously billed management fee is promptly returned on a pro-rated basis. The effective termination date will be the date of the notice, unless a future termination date is specified. Clients are also able to end their relationship with the Firm by submitting those intentions to the custodian and removing the account from CEFA's management privileges.

### **Brokerage & Custodian Fees:**

Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as 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. These transaction charges are usually relatively small and are incidental to the purchase or sale of a security. Closed-end, open-end and exchange traded funds also charge internal management fees, which are part of the expense ratio and are disclosed in a fund's prospectus or annual report. Such charges, fees and commissions are exclusive of and in addition to CEFA's fee, and CEFA shall not receive any portion of these commissions, fees, and costs.

This section further describes the factors that CEFA considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions). Each custodian has a slightly different schedule of charges and fees, and it may be possible to find lower commissions or fees than at the custodians used by the Firm. CEFA looks at the total cost and benefits for client accounts when making such determinations.

### **Compensation for Sales of Investment Products:**

The Firm's compensation is solely from fees paid directly by clients. CEFA does not receive commission based on the client's purchase of any financial product, including insurance. No commissions in any form are accepted.

### **Subscription Fees for CEFA's Closed-End Fund Universe:**

CEFA produces a report on all US listed closed-end funds. It covers hundreds of data points for US listed traditional closed-end funds and for BDCs. We also produce a CEF Press release archive and charts on data points on peer-groups as they are organized in the service. The cost is \$1,900 - \$33,075 per year depending on whether the subscriber is an individual, investment professional, or fund sponsor. Details are available at [www.cefuniverse.com](http://www.cefuniverse.com) or [CEFdata.com](http://CEFdata.com). We specifically do not give out recommendation or advice in the service. We simply collect and organize data on the funds. Subscriptions for this service are paid in advance on a semi-annual basis.

Subscription pricing for the premium CEFData.com service depends on the type of subscriber (*i.e.*, individual investor, small RIA, or hedge fund) and ranges from \$5,000 - \$50,000 per year. Please contact CEFA for a quote. Subscriptions for this service are paid in advance on a semi-annual basis.

CEFA Offers access to our Daily News and SEC Filings Alert Service from \$310 - \$850 per year. A trial is available, and you can learn more on our website: [www.cefddata.com](http://www.cefddata.com). Subscriptions for this service are paid in advance on an annual basis.

Subscriptions are annual (the "billing period"). If a client cancels their subscription prior to the end of the billing period then CEFA will not return to the client any unearned fees on a pro-rata basis, but may offer the credit towards other CEFData.com services. Senior Management reserves the right to offer discounted subscription fees for clients. Subscription fees may be negotiable in certain circumstances. Some subscribers have this service paid for by a third-party and that is in the form of a soft dollar benefit to that subscriber.

## **Item 6: Performance-Based Fees and Side by Side Management**

CEFA does not use a performance-based fee structure because of the potential conflict of interest (fees based on a share of capital gains on or capital appreciation of the assets of a client). Performance-based compensation may create an incentive for the advisor to recommend an investment that may

carry a higher degree of risk to the client. However, the nature of asset-based fees allows CEFA to participate in the long-term growth of the client's assets. This also means that our fees can decline when the client's portfolio declines in value.

## **Item 7: Types of Clients**

### **Typical Clients:**

The Firm has traditionally dealt with individual high net worth (HNW) clients but has been increasing its efforts to serve institutional clients, primarily independent financial advisors and financial planners in need of an outsourced investment solution as well as small to medium-sized foundations and endowments in need of CEFA's services. The majority of our current client base is comprised of individuals and couples and their related accounts. These relationships come both "direct" to the Firm and from "third-party" relationships (servicing financial advisors or financial planners).

### **Minimum Account Size:**

The Firm expects clients to maintain accounts with \$2,000,000 per household in assets for most models and \$3,500,000 for the municipal bond models. Senior management has the authority to reduce this figure as it fits into the business goals of the Firm. Smaller accounts may be accepted if the client also has a larger account, or a family relationship already maintained with CEFA. See Item #5 for more detail on CEFA's Fee Schedule. Maximum Quarterly Fee: 2.50% of the account's value annually. **Requirements to Open a Discretionary Account:**

CEFA Requires That Each Client:

- ❖ Completes and Signs CEFA's Suitability Questionnaire
- ❖ Selects a CEFA Portfolio Model for Each Account to Be Managed
- ❖ Completes the Required Custodial Paperwork to Open an Account
- ❖ Executes the Firm's Investment Advisory Agreement
- ❖ Submits the Required ACAT/Transfer Paperwork or Sends a Check or Wire Transfer to the Custodian
- ❖ Receives a Copy of: Form ADV PART 2A & 2B, Form CRS, CEFA's Privacy Statement, and Custodian Disclosures
- ❖ Sends CEFA a Copy of a government issued photo ID

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

### Investment Philosophy:

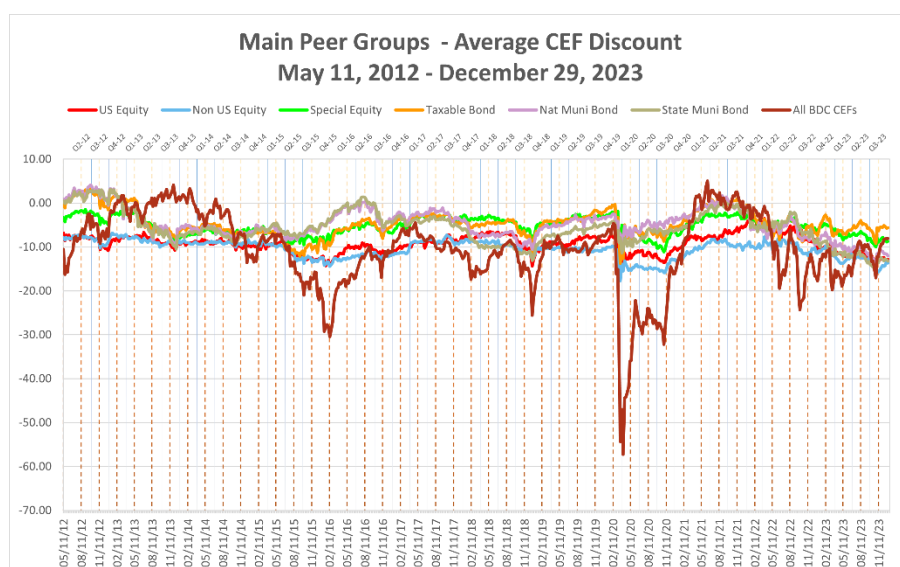
The primary investment strategy of CEFA is long-term capital appreciation for its portfolios, using total return derived from capital gains, income distributions and principal growth. Dividend distributions are important, and funds paying a regular distribution are often favored. For growth oriented accounts, CEFA typically chooses a focus on part of the world or sector to over-weight its investment exposure based on market outlook and/or current discount levels.

For income-oriented accounts, we use both equity and fixed income-oriented funds, seeking monthly or quarterly distributions. More and more funds have followed market demand for regular “managed distributions” or regular pay-outs from income and capital gains to shareholders. We seek to avoid distributions comprising a significant return of principal payments if we deem them to be eroding net assets and can lead to a potential dividend cut. Managed distributions tend to narrow fund discounts. Funds that repurchase their shares are also quite common, which can add to the value of the position.

### Discounts & Premiums:

As a general rule, CEFA only buys funds trading at a discount to NAV as premiums are considered headwinds that often greatly increase the principal risk in a closed-end fund. However, it is important to know that CEFA doesn't buy a deep discount without other significant factors that lead us to believe the NAV and discount will narrow. Some discount levels are pervasive, and the Firm uses the concept of relative discounts and historical discount trends to assist in selecting funds for client accounts.

A fund selling at a premium to net asset value will often be sold, replacing it with replacement funds usually at a discount. Not only is it unlikely that this premium will remain, but the fund could issue a rights or secondary offering, depressing the stock. When CEFA sells a particular fund at a premium, we try to allocate the assets into a fund selling at a discount in the same region or sector.



## **Methods of Analysis:**

Investment analysis methods for CEFA's models include fundamental and technical analysis. In addition to the Firm's proprietary sources *The CEF Universe*, the Firm also uses the following information and resources to make investment decisions:

- Live Trade Data & Economic Research
- Wall Street Journal, Financial Times, Barron's & The New York Times
- Numerous Industry & Sector Periodicals
- Contact with Many CEF Managers and Investor Relations Departments
- Relationships with most CEF Analysts
- Access to Updated NAV Values Intraday
- Access to Paid CEF Research and Data Sources
- Monitor All Known CEF Discussion Groups and Online Forums
- Public CEF Resources: [www.AICAlliance.org](http://www.AICAlliance.org), [www.cefa.com](http://www.cefa.com), [www.cefconnect.com](http://www.cefconnect.com), [www.morningstar.com](http://www.morningstar.com)
- Access to CEF Specialist Trading & Execution Firms
- Closed-End Fund & Industry Conference Calls
- CEF & Industry Conferences
- Research Reports Prepared by Others
- Filings with The Securities & Exchange Commission
- Fund Annual, Semi-Annual, Quarterly and Monthly Reports

## **Research:**

Primary research is conducted at both John Cole Scott's home office and Dan Silver's home office regularly. CEFA seeks undervalued closed-end funds in every region and sector of the global stock and bond markets that have strong, NAV performance, manager tenure and favorable data characteristics. Interviews and meetings with fund portfolio managers are key to CEFA's investment research and analysis of funds.

Most of the economic and market analyses can be classified as fundamental, though CEFA often uses its analyses on the technical aspects of an investment to help the timing of purchases or sales.

The financial services industry has moved more and more toward global investment. Flow-of-fund trends are tracked worldwide. When a sector looks overvalued or the particular fund sells above net asset value, CEFA is likely to start selling or swapping funds in this sector.



### **Closed-End Fund Data Team:**

In 2011 CEFA hired an in-house data team to supplement our data on closed-end funds. In May of 2012 we commenced self-sourcing the data for our weekly data service “*CEFA’s Universe Report*”, replacing Morningstar as our data vendor. Currently we produce hundreds of data points for CEFs and for BDCs. The team reviews all press releases, SEC filings and fund updates from the fund sponsors websites as well as reviews and monitors the newswires and closed-end discussion groups. We offer free public CEF/BDC fund profiles, 30+ CEF/BDC indexes and a fund screener.

### **Firm Buy/Sell Disciplines:**

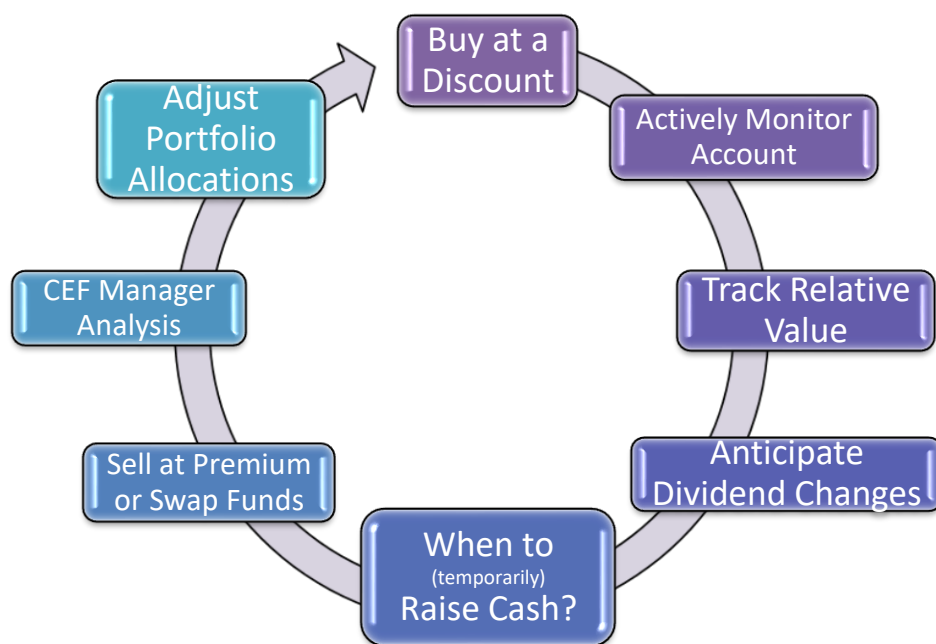
CEFA regularly reviews all the funds in the Firm’s portfolios and Firm watch list. We review recent net asset value, stock price, and discount to net asset value, the relative discount and the total returns for both the net asset value and the market price. Funds are often considered a buy, sell or hold. For taxable clients in high tax brackets, we consider the cost basis gains and losses when making portfolio changes.

CEFA has a list of potential core holdings in its model portfolios for new client accounts or assets and chooses positions according to the client’s individual investment objectives. For new accounts or large amounts of new assets it typically takes 30 -90 days to fully invest into the selected model. This is the Firm’s endeavor to reduce entry risk, by placing assets at a relative high in the markets or sectors. CEFA uses levels of discounts and other value-oriented analyses for fund purchases and sales. The primary reasons to invest in a short period of time are to avoid market timing risk of when a client needs the portfolio to produce regular distributions in a timely fashion.

**Closed-End Fund Evaluation Factors:**

| <b>Yield</b>   | <b>Fundamental</b>                                      | <b>Value</b>                            |
|--|---|---|
| <b>Fund's Dividend Policy</b>  | <b>Manager Reputation</b>                               | <b>Historical Discount or Premium</b>   |
| <b>Income Yield, Indicated Yield, NAV Yield &amp; Leverage Adjusted NAV Yield</b>                        | <b>Portfolio Characteristics</b>                        | <b>Peer and Peer Average Discounts</b>  |
| <b>Undistributed Net Investment Income Levels (UNII) &amp; Relative UNII or Earnings Coverage trends</b> | <b>Who Owns the Fund (institutions &amp; Activists)</b> | <b>Liquidity &amp; Volatility</b>       |
| <b>Historical Dividend Changes</b>   | <b>Expense Ratio (amount and make-up)</b>               | <b>Correlation Analysis</b>             |
| <b>Return of Capital (levels and effects) and if deemed destructive</b>                                  | <b>Regulatory and Tax Changes</b>                       | <b>52 Week Relative Price</b>           |
|  |   | <b>Upcoming IPOs in the Sector</b>      |
| <b>Historical dividend classification for fund, peers or sector</b>                                      | <b>Sector, Country or Currency Exposure</b>             | <b>Term Structured CEFs</b>             |
| <b>After Tax Yield per client account</b>  | <b>Leverage Cost and Type</b>                           | <b>NAV and Price Standard Deviation</b> |

### Typical Portfolio Investment Process:



### Portfolio Models:

CEFA's asset allocation models are derived to balance the investment risks with a client's goals and needs. The company's investment approach focuses on the following areas of investment:

#### Active CEFA Managed Portfolio Models

- ❖ **International Opportunity:** Diversified portfolio of non-US and global sector of closed-end funds. We seek to blend our global market outlook with the ability to buy funds, often at significant discounts to NAV while having the opportunity for discount narrowing over time. Yield is a byproduct of the model as many CEFs pay at least annual or semi-annual distributions. We expect the model to be 60%-80% Equity exposure and 55% to 85% Non US holdings at the fund level. We seek duration of the portfolio on a "cash weighted" basis under 2 and a Beta to the S&P 500 between 0.75 and 1.1.
- ❖ **Diversified Equity:** Diversified portfolio seeking primarily equity exposure. The Beta to the S&P 500 is expected to be 0.80 to 1.25. This portfolio is expected to have little to no duration exposure.
- ❖ **Diversified Growth:** Diversified portfolio focusing on the sectors and funds where we see the best risk-adjusted growth potential. Yield is a byproduct of the model as many CEFs pay at least annual or semi-annual distributions. We expect the model to be 60 to 90% equity exposure based on the fund's reported holdings and seeking to have duration of the portfolio on a "cash weighted" basis around 1 and a Beta to the S&P 500 between 0.65 and 1.2.

- ❖ **Hybrid (High) Income:** Diversified portfolio seeking 50/50 allocation to equity and debt at the fund level; focusing on the highest sustainable dividend levels possible in the current environment with at least 75% of CEFs paying monthly. Historically 8%-9% is our target income level. We seek to have duration of the portfolio on a “cash weighted” basis under 2 and a Beta to the S&P 500 between 0.75 and 1.3. We offer a 100% monthly paying version of this model (#4.2) for investors that seek this feature to their investment needs and a Tax Advantaged version of this model (#4.1).
- ❖ **Discount Opportunity:** Diversified portfolio seeking 50/50 allocations to equity and debt at the fund level. Researching funds that both have a larger than average absolute discount to NAV as well as wider than normal Comp Discount (vs. peer-group average) without a significantly worse NAV total return performance vs. their peer funds. This model can work well for contrarian investors.
- ❖ **Alternative Income:** Diversified portfolio seeking 40% Equity/60% Credit Fund allocation at the fund level; focusing on less “plain vanilla” or core sectors and managers that could offer a more “hedge fund” like experience and a diversifier to traditional equity and bond allocations. We seek 2% a quarter in distributions at roughly half the Beta to the S&P 500 during normal market conditions with “cash weighted” duration under 2. We offer a Tax-Advantaged version of this model (#6.1).
- ❖ **Foundation/Balanced:** Diversified model based on a 60% equity/40% debt allocation at the fund level. We believe this model is a “medium risk portfolio” for a typical retired investor. Historically 7%-8% is our target income level. We seek to have duration of the portfolio on a “cash weighted” basis under 2.5 and a Beta to the S&P 500 between 0.60 and 0.90. We offer a “Tax Advantaged” version of this model (#7.1), that could reduce the after-tax friction by 65%-75% for a typical investor in a taxable environment. We also offer a more conservative portfolio (Conservative Diversified), comprised of 2/3 the F/B model and 1/3 invested in non-traditional asset classes using other funds to reduce the expected volatility over time.
- ❖ **Taxable Bond and BDC:** Diversified portfolio focused on the taxable bond and debt-focused business development company (BDC) sectors. This income focused model historically targets a 7%-8% income level. It seeks “cash weighted” duration under 4 and a Beta to the S&P 500 from 0.35-0.75.
- ❖ **Dividend Confidence Model:** Diversified portfolio of roughly 50% equity and bond funds where we see above average dividend coverage as the primary factor after our Trifecta analysis. Historically 6.25% 7.5% is our target income level and we expect durations under 2.5 and a beta under 0.80.
- ❖ **Diversified Low Beta:** Diversified portfolio seeking 50/50 allocations to equity and debt at the fund level focusing on a lower Beta for to the S&P 500 in the sector when selecting funds. We seek to have duration of the portfolio on a “cash weighted” basis under 1.75 and a Beta to the S&P 500 between 0.40 and 0.65.

- ❖ **Low Correlation:** Diversified portfolio seeking roughly 50/50 allocations to equity and debt at the fund level. Focusing on exposure to the CEF sectors we find have the lowest long-term NAV correlations to each other. Historically 6%-7% is our target income level. We seek to have duration of the portfolio on a “cash weighted” basis under 3.25 and a Beta to the S&P 500 between 0.50 and 0.70. We offer an “IRA” version of this model (#11.1) that replaces Build America Bond (BABs) exposure for the municipal bond exposure.
- ❖ **Diversified Tax-Sensitive Income:** Designed to maximize after-tax yield for high income investors seeking little-to-no tax friction. Equal weight exposure to three CEF sectors who historically have low correlation: municipal bonds, master limited partnerships and tax-advantage equity funds. Muni’s, the most common tax-avoidance sector for many investors has a 33% 18 Year NAV correlation (June 30, 2023) to MLPs and 43% correlation to Covered Call Funds. Covered Call funds have only a 73% correlation to MLP funds. We seek a Beta to the S&P 500 of 0.50 to 0.80 and an after-tax yield of 6% to 7%. Duration is expected to be under 4. We offer a Municipal bond overweight version of this model (#12.1) where roughly 50% of the portfolio is Muni bond CEFs.
- ❖ **Business Development Company Select:** Diversified portfolio of BDCs with strong fundamental research on each BDC’s portfolio and management. Seeking BDCs exposure with above average dividend sustainability, NAV performance, variable and senior secured loan exposure as well as low non-accruals (defaults). We look for sector and geographic diversity. Historically yield levels of 8.5% to 9.5% are common. As of June 30, 2023 BDCs have low 18-year correlation to most asset classes; including 15% to municipal bond, 33% to preferred equity and 34% to REITs and only a 45%-42% correlation to high yield and Sr. loans. We offer a “100% monthly paying only” (#13.1), “low Beta” (#13.2) and Premium BDC version of this model (#13.3).
- ❖ **Municipal Bond Select:** A focused portfolio managed for 100% tax-free municipal bond exposure. We seek to build and manage the portfolio for better than average: discount to NAV, NAV total return performance, distribution levels, duration exposure, dividend coverage, and other criteria we believe can give investors a better experience when looking to allocate funds into this sector. We also offer this model with lower duration (and yield) exposure (#14.1).
- ❖ **CEFA Select “Six Pack” Income:** This is a Diversified portfolio of fund in the following six sectors: Business Development Companies, Covered Call Funds, Loan Participation Funds, Preferred Equity Funds, REIT/ Real Asset Funds and Utility / Infrastructure Funds. They are expected to be weighted with a min allocation of 10% and Maximum allocation of 20% per sector. Exposure should be at a minimum of 40% for both equity and fixed-income holdings for the underlying funds. We anticipate the yield being about 1% higher than the 15 Major Sector Index under normal market conditions.
- ❖ **CEFA Non-Profit Foundation Diversified Income:** This is a diversified portfolio of 25-50 listed funds giving tactical exposure to CEFs and BDCs based on the firm's investment outlook and the universe's relative attractiveness for the various sectors. In regular market conditions there will be minimum 3.5% exposure to a maximum of 20% exposure for each of the 15 primary 15

CEF sectors. Asset allocation for the portfolio is expected to always be a minimum of 30% credit funds and a maximum of 70% equity funds. We would expect the portfolio's net assets to be between 10% and 25% exposure to equity holdings in the S&P 500. 80% of the portfolio allocations will be in funds with regular monthly or quarterly distributions. Position allocations will typically be between 1% and 5% of the account value for invested principal. The composite's benchmark is the 15 Major Sector Index. We expect the weighted discount to be -2% wider than the index and indicated yield to be in line with the index.

### **Rebalancing of Accounts:**

Account allocations are rebalanced periodically, reducing positions or sectors that have made the biggest moves and adding to those selling at better value. Model allocations are adjusted as needed based on market changes.

Every account is separately managed and usually monitored daily, attending to specific objectives of the client. The allocations may be adjusted up to a variance of 10% of the portfolio model allocations and still be considered part of the composite.

### **Typical Model Turnover:**

CEFA's model portfolios can be considered actively managed with the average turnover being about 35% to 150% per year based on the investment objective and tax status of the account. For example, harvesting losses in a taxable account when possible and prudent. The two main factors that determine this are: 1) The account size; large accounts tend to have more positions and thus more transactions, and 2) Changes in market, sector and fund conditions. We sell or swap funds when we feel it is prudent for the portfolio model.

This means clients could have frequent trading of securities in their accounts, and frequent trading can affect investment performance, particularly through increased commissions and taxes paid on short-term and long-term gains.

### **Closed-End Fund Specific Risk Factors:**

The primary risk factors for closed-end funds include:

- ❖ **Liquidity Risk:** Some funds trade with wide bid/ask spreads and limited shares per day. CEFA generally avoids funds with less than \$100 million in NAV assets or trading less than \$250K a day in USD.
- ❖ **Discount Risk:** This risk is when a fund's discount moves wider than your purchased discount.
- ❖ **Dividend Cut Risk:** When a fund significantly reduces its monthly or quarterly dividend payment, the market price of the fund often suffers a quick and significant pullback. This hurts both principal and income production in the account. CEFA monitors fund press releases, CEF discussion groups and income risk data points to reduce this likelihood.



- ❖ **Market Price Risk:** Closed-end funds trade at market prices but are inherently worth their net asset value. There can be long-term disparity between the NAV performance and the market price performance which could potentially hurt shareholders.
- ❖ **Non-Listed Interval Fund Risk:** Interval funds have the feature of being purchased and sold at NAV, however in most cases the purchase can be daily and the redemption is often quarterly. Many funds allow 5% of their assets each quarter to be tendered, but this level and schedule can be fund specific. If many investors want out of a fund in the same quarter, it can take a long time to fully redeem. Most custodians also charge a small fee each time a purchase or sale is submitted for an Interval Fund. The primary reason for this fund feature is the holdings tend to be 70%+ private equity, debt or level 3 assets.

### **Investment Risk:**

Investing in securities involves a risk of loss that clients should be prepared to bear. The investment strategy offered by CEFA could lose money over short or even long periods. Our various investment approaches keep the risk of loss in mind. However, as with all investments, clients face investment risk including the following: Loss of Principal, Interest Rate Risk, Market Risk, Inflation Risk, Currency Risk, Reinvestment Risk, Business Risk, Liquidity Risk and Financial Risk. CEFA cannot guarantee results of its models, and past performance cannot be used to predict future results. Investments in a CEFA managed account are not FDIC insured and may lose value.

## **Item 9: Disciplinary Information**

In April 2021, CEFA settled a client complaint for \$75,000 due to a client's claim that their investment portfolio was unsuitably invested in February 2020 through the COVID market turmoil.

There are no other legal or disciplinary events that are material to a client's or prospective client's evaluation of CEFA's advisory business or the integrity of our management.

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

CEFA's management persons are solely employed by CEFA and have no relationships or arrangements that could pose a conflict of interest or are material in the management of our client accounts. It should be noted that four years after founding AICA, as of July 2023, John Cole Scott takes a small stipend for the executive management of AICA. The relationship with AICA and CEFA is highly synergistic as both entities are noncompetitive, and solely focused on CEFs and BDCs.

CEFA utilizes Charles Schwab and Wells Fargo as custodians for client accounts. With Charles Schwab we have institutional access which greatly assists us in managing the client accounts. Primary benefits include block trading, step-out trading, direct account billing, access to research and software integration between our customer relationship management ("CRM") software, portfolio reporting software and our custodians.



CEFA provides sub-advisory services to other investment managers. As of the date of this Brochure, CEFA provides sub-advisory services to a small number of clients at Wells Fargo.

Clients may be referred to CEFA by a third-party solicitor. Any client that is referred to CEFA from a third-party solicitor will at the time of referral be required to sign a separate written disclosure agreement that details the arrangement between CEFA and the solicitor, such as fees paid to the solicitor for such referral.

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

CEFA has adopted a Code of Ethics pursuant to SEC rule 204A-1 for all supervised persons of the Firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts, business entertainment items and personal securities trading procedures, among other things. All supervised persons at CEFA must acknowledge the terms of the Code of Ethics annually, or as amended.

CEFA anticipates that, in appropriate circumstances consistent with clients' investment objectives, it will cause accounts over which CEFA has management authority to affect and will recommend to investment advisory clients or prospective clients the purchase or sale of securities in which CEFA, its affiliates and/or clients directly or indirectly have a position of interest. CEFA's employees and persons associated with CEFA are required to follow CEFA's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of CEFA and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for CEFA's clients.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of CEFA 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 materially not interfere with the best interest of CEFA's clients. In addition, the Code of Ethics requires pre-clearance of many transactions and restricts trading in close proximity to client trading activity. 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 to reasonably prevent conflicts of interest between CEFA and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with CEFA's obligation of best execution. In such circumstances, the affiliated

and client accounts will share commission costs equally and receive securities at a total average price. CEFA will retain records of the trade order specifying each participating account and its allocation. Completed orders will be allocated as intended in the initial trade order. Partially filled orders will be allocated on a pro-rata basis unless trade commissions make such proration costly to clients. Exceptions will be explained in the order.

CEFA's clients or prospective clients may request a copy of the Firm's Code of Ethics by contacting David Carter.

It is CEFA's policy that the Firm will not affect any principal or agency cross securities transactions for client accounts. CEFA will also not cross trade 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. No one at CEFA has been part of a broker dealer since May 2009 when George Cole Scott and John Cole Scott were dually registered with Anderson & Strudwick.

## **Item 12: Brokerage Practices**

CEFA is an independent investment advisory firm unaffiliated with any custodian. Currently all but 4 direct clients' accounts are held at Charles Schwab. The Firm considers Charles Schwab a vendor vs. an employer as is sometimes the case for other investment advisory services. CEFA monitors the level of service it and its client(s) receive from Charles Schwab on an ongoing basis. At any point CEFA is free to select a new custodian for its clients.

The benefits of working with one primary direct custodian include consolidated access to institutional trading and a dedicated service team which assists CEFA in managing the operational aspects of our client's accounts. CEFA has access to consolidate block and error accounts which allows the Firm access to step-out trading and average pricing of funds for client accounts. Step-out trading is when the Firm utilizes a specialist execution firm to assist in buying or selling large amounts of (closed-end fund) shares in the same period of time (usually within a few days) and having those shares allocated to our block account at the custodian each day to then allocate to client accounts.

## **Brokerage Recommendations:**

*CEFA* actively recommends that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Company, Inc. ("Schwab"), a FINRA-registered broker-dealer, Member SIPC, to maintain custody of clients' assets and to effect trades for their accounts.

Although *CEFA* recommends clients establish accounts at Schwab, it is the client's decision to custody assets with Schwab. *CEFA* is independently owned and operated and not affiliated with Schwab. *CEFA* can recommend additional unaffiliated broker-dealers to affect fixed income transactions.

Schwab provides *CEFA* with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a pre-determined minimum amount of the advisor's clients' assets are maintained at Schwab Advisor Services. These services are not contingent upon *CEFA* committing to Schwab any specific amount of business (assets in custody or trading commissions). Schwab's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require significantly higher minimum initial investment.

Schwab Advisor Services also makes available to *CEFA* other products and services that benefit *CEFA* but may not directly benefit clients' accounts. Many of these products and services can be used to service all or some substantial number of *CEFA*'s accounts, including accounts not maintained Schwab.

Schwab's products and services that assist *CEFA* in managing and administering clients' accounts include software and other technology that (i) provides access to client account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of *CEFA*'s fees from some of its accounts; and (v) assist with back-office functions, recordkeeping and client reporting.

Schwab Advisor Services also offers other services intended to help *CEFA* manage and further develop its business enterprise. These services include: (i) compliance, legal and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to employee benefits providers, human capital consultants and insurance providers. Schwab Advisor Services will discount or waive fees it would otherwise charge for some of these services or pay all or part of the fees of a third-party providing these services to *CEFA*. Schwab Advisor Services will also provide other benefits such as educational events or occasional business entertainment

of CEFA personnel. While as a fiduciary, CEFA endeavors to act in its clients' best interests; CEFA's recommendation that clients maintain their assets in accounts at Schwab will take into account availability of some of the foregoing products and services and other arrangements not solely on the nature of cost or quality of custody and brokerage services provided by Schwab, which creates a conflict of interest.

**Directed Brokerage:**

If the Client requests CEFA to arrange for the execution of securities brokerage transactions for the Client's account, CEFA shall direct such transactions through broker-dealers that CEFA reasonably believes will provide best execution. These arrangements shall be referred to herein as "Non-Directed Brokerage Arrangements." CEFA shall periodically and systematically review its policies and procedures regarding recommending broker-dealers to its Client in light of its duty to obtain best execution. The Client may direct CEFA in writing to use a particular broker-dealer to execute some or all transactions for the Client. These arrangements shall be referred to herein as "Directed Brokerage Arrangements." In the case of Directed Brokerage Arrangements, the Client will negotiate their arrangements for the account with that broker-dealer, and CEFA will not seek better execution services or prices from other broker-dealers. 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 Directed Brokerage Arrangement account than would otherwise be the case.

**Other Custodians:**

CEFA is open to relationships with any custodian that allows similar access to services as long as the relationship makes business and compliance sense for the Firm and especially our clients. Wells Fargo Advisors currently has accounts with CEFA, and, in order to work through their advisors, the accounts are maintained by their custodian, First Clearing.

CEFA does not direct brokerage or allow a client to direct brokerage outside of the custodian where the client assets are held. The firm as a general rule uses aggregate or block trading when making a buy or sell decision across an entire composite across the entire firm. We make trades inside the account on an individual basis when the client has added or requested funds, or when an account is new to the composite and individual trading may be the most effective way to add or change a position. Non-aggregated trades can give less favorable execution to client portfolios. As our interests are closely aligned with the client, as an asset-based fee-only firm, it is in our best interest and the best interest of the clients to make the most favorable trading arrangements possible for each transaction.

## Item 13: Review of Accounts

### **Frequency of Review:**

Client accounts are monitored on an ongoing basis. A formal review occurs each quarter. However, accounts are monitored on an almost daily basis. Each account is reviewed, in particular, for the need to re-balance or swap one fund for superior investment exposure. We use our CEFDData.com portfolio reporting system to review all client portfolios.

### **Review Triggers:**

Account reviews for client accounts are performed more frequently when market conditions dictate, or when a client's objectives change. A review may be triggered by client request, changes in market conditions, new information about an investment, changes in tax laws or other important changes.

### **Performance & Client Reporting:**

The performance for each account is currently measured using portfolio management software. Clients are mailed or emailed quarterly reports as well as have access to their accounts via the web both through their custodian and CEFA's portfolio management software's web portal. Clients can access this through a link on our website in the upper left-hand corner named "client login".

### **Account Reviewers:**

Accounts are reviewed by the Firm's portfolio managers, John Cole Scott and Daniel Silver.

### **Account Custody:**

Detailed information about client custody is available in Item 15.

## Item 14: Client Referrals and Other Compensation

### **CEFA's Compensation for Referrals:**

CEFA has adopted the following referral compensation schedule which can be used to compensate a solicitor on a one-time basis for significantly assisting the Firm in gaining a new client household relationship.

In order to be paid the referral fee, the individual must disclose in writing to the referee that they will be compensated for making the introduction as 65%-80% of the first full quarter's fee (depending on the account size). Payments will be made once a full quarter's fees are paid by the client, unless

otherwise agreed upon. The referring individual will be sent a 1099 for the income by CEFA during the first quarter of the following calendar year. Any referring party receiving compensation related to our investment advisory services must be registered with the appropriate regulatory authority.

### One-Time Referral Fee Schedule

| Example Account Size      | Example Client Fee | Est. Quarterly Fee | Referral Pay-Out % | Referral Pay-Out \$ |
|---------------------------|--------------------|--------------------|--------------------|---------------------|
| \$500,000                 | 1.50%              | 37.5 bp            | 65%                | \$1,219             |
| \$500,001 - \$1,000,000   | 1.25%              | 31.25 bp           | 70%                | \$1,094 - \$2,188   |
| \$1,000,001 - \$5,000,000 | 1.00%              | 25 bp              | 75%                | \$1,875 - \$9,375   |
| \$5,000,001+              | 0.85%              | 21.25 bp           | 80%                | \$8,500+            |

The referral fee will be calculated by the actual fee paid by the client, which sometimes can differ from CEFA's Regular Fee Schedule.

## Item 15: Custody

CEFA has custody of client funds and securities solely as a consequence of its authority to make withdrawals from client accounts to pay its advisory fee. Each client's agreement gives CEFA written authorization to deduct advisory fees from the account held with a qualified custodian.

All investments are held at qualified custodians, who provide account statements directly to clients at their address of record or via email and web-access at least quarterly.

The Firm urges clients to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities.

## Item 16: Investment Discretion

### Discretionary Authority for Trading:

CEFA usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the client account.

When selecting securities and determining amounts, CEFA observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, CEFA's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

**Limited Power of Attorney:**

Clients must sign a limited power of attorney and our Investment Advisory Agreement before CEFA is given discretionary authority. The limited power of attorney is often included in the qualified custodian's paperwork and in the Firm's Investment Advisory Contract.

**Investment Guidelines and Restrictions:**

Investment guidelines and restrictions must be provided to CEFA in writing as a client's risk tolerance, financial conditions or investment objectives change.

## **Item 17: Voting Client Securities**

As a matter of Firm policy and practice, CEFA 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. CEFA may provide advice to clients regarding the clients' voting of proxies and welcomes questions at any time about a particular proxy solicitation.

## **Item 18: Financial Information**

CEFA does not have any financial impairment that will preclude the Firm from meeting contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding. A balance sheet is not required to be provided because CEFA does not serve as a custodian for client funds or securities and does not require pre-payment of fees more than \$1,200 per client, six months or more in advance.