



## **Interinvest Corporation**

### **Form ADV Part 2A Investment Advisor's Brochure**

**March 31, 2011**

**192 South Street, Suite 350  
Boston, MA 02111  
617-723-7870  
[www.interinvest.com](http://www.interinvest.com)**

This brochure provides information about the qualifications and business practices of Interinvest Corporation. If you have any questions about the content of this brochure, please contact us at 617-723-7870 or at [boston@interinvest-us.com](mailto:boston@interinvest-us.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.

Interinvest Corporation is a Registered Investment Advisor (RIA) registered with the United States Securities and Exchange Commission. Such registration does not imply any certain level of skill or training on the part of Interinvest Corporation or its employees.

Additional information about Interinvest Corporation is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2: Material Changes**

In 2010 Dr. Hans Peter Black, the founder and Chief Investment Officer of Interinvest Corporation, transferred, as part of an estate plan, his ownership of Interinvest Corporation to his sons Hans Arthur Black and Alexander Richard Black.

Interinvest Corporation believes that this is the sole material change in its annual filing to have occurred since the last annual update of Part 2 of its Form ADV on March 29<sup>th</sup>, 2010.

Please note that there have been other changes to this brochure, this item only covers material changes, and as such the brochure should be reviewed in its entirety.

### Item 3: Table of Contents

<u>Item 1: Cover Page</u>	<u>1</u>
<u>Item 2: Material Changes</u>	<u>2</u>
<u>Item 3: Table of Contents</u>	<u>3</u>
<u>Item 4: Advisory Business</u>	<u>4</u>
<u>Item 5: Fees and Compensation</u>	<u>6</u>
<u>Item 6: Performance-Based Fees and Side-by-Side Management</u>	<u>8</u>
<u>Item 7: Types of Clients</u>	<u>8</u>
<u>Item 8: Methods of Analysis, Investment Strategies and Risk of Loss</u>	<u>8</u>
<u>Item 9: Disciplinary Information</u>	<u>12</u>
<u>Item 10: Other Financial Industry Activities and Affiliations</u>	<u>13</u>
<u>Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading</u>	<u>13</u>
<u>Item 12: Brokerage Practices</u>	<u>15</u>
<u>Item 13: Review of Accounts</u>	<u>17</u>
<u>Item 14: Client Referrals and Other Compensation</u>	<u>18</u>
<u>Item 15: Custody</u>	<u>18</u>
<u>Item 16: Investment Discretion</u>	<u>19</u>
<u>Item 17: Voting Client Securities</u>	<u>19</u>
<u>Item 18: Financial Information</u>	<u>21</u>
<u>Item 19: Requirements for State-Registered Advisers</u>	<u>21</u>

## **Item 4: Advisory Business**

### ***Interinvest Corporation and principal owners***

Interinvest Corporation (“Interinvest”, the “Applicant”, the “Corporation” or the “Company”) was founded in Boston in 1980 by Dr. Hans Peter Black as a global investment manager. The Company maintains a conservative, risk-averse investment philosophy with an emphasis on combining top-down and bottom-up analysis. The Corporation focuses on and maintains an expertise in equity, fixed income and currency markets.

The Company manages accounts on primarily a discretionary basis, meaning that investment decisions are made by Interinvest for clients’ accounts without getting clients’ prior written consent for investment decisions. The Company offers investment advisory services that are tailored to the needs of individual clients but that follow the Applicant’s investment philosophy.

Dr. Black has an educational background in science, international law and medicine. He is a graduate of Union College in Schenectady, NY. He received his Doctorate in Medicine from McGill University in Montreal. Dr. Black serves as Chief Investment Officer of Interinvest.

Prior to 2010, Dr. Hans Peter Black was the principal owner of Interinvest Corporation. In 2010, as part of an estate plan, Dr. Black transferred his ownership of Interinvest Corporation to his sons, Hans Arthur Black and Alexander Richard Black.

Hans Arthur Black is a graduate of Union College in Schenectady, NY. He subsequently received graduate degrees from the University of Edinburgh and the London School of Economics, and has two law degrees from McGill University in Montreal Canada.

Alexander Black is a graduate of Swarthmore College in Swarthmore, PA. He subsequently received a graduate degree from the London School of Economics. Mr. Black is a Chartered Financial Analyst (CFA).

### ***Advisory services***

Interinvest’s primary business is providing individualized portfolio management programs for growth (equity), balanced, and fixed income mandates. In addition, Interinvest provides advice on currencies and has a monthly newsletter dealing with the markets, the economy and the macroeconomic outlook which is available free to managed account clients and to others for a subscription fee.

The kinds of securities Interinvest invests in on behalf of its clients include exchange listed securities, over the counter securities, foreign securities, warrants, corporate bonds, municipal securities, and U.S. Government and Agency securities.

For qualified investors, Interinvest also may occasionally invest in private placement and subscription offerings for both publicly traded and private companies.

### ***Tailored advisory services***

Interinvest manages accounts primarily for high net worth individuals, pension and profit sharing plans, trust or charitable organizations and corporations. All accounts are individually managed in accordance with the objectives of the client relating to factors such as time horizon, risk tolerance, income needs, liquidity constraints and tax strategies.

Clients may direct permissible investments to include any of the kinds of securities in which Interinvest routinely invests and may direct Interinvest to exclude certain kinds of securities or industries (e.g. tobacco). Interinvest will determine whether it is possible to adhere to these restrictions before agreeing to manage the account.

### ***Wrap fees***

Interinvest does not participate in any wrap fee programs.

### ***Assets under management***

As of 12/31/10, discretionary assets managed by Interinvest Corporation totaled \$83.3 million. Additionally, Interinvest performed investment services on a non-discretionary basis for clients with assets totaling approximately \$8 million.

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

### ***Fees for advisory services***

Interinvest's standard fee schedule for standard accounts are as follows:

	Growth	Balanced	Fixed
First \$ 500,000	2%	2%	1%
Next \$ 500,000	1%	1%	1%
Next \$ 1,500,000	1 1/4%	1 1/4%	1/2%
Over \$ 2,500,000	negotiable	negotiable	negotiable

The fee schedules apply to discretionary and non-discretionary accounts. Non-discretionary accounts currently represent less than 2% of the firm's overall accounts. Fees may vary for specific types of accounts, including for example for corporate clients. All fee schedules are negotiable. Interinvest reserves the right to modify and adapt its fee policies as it sees fits and in concert with its client's needs.

### ***Billing method***

Interinvest is paid fees on a calendar quarterly basis. The amount of the fee will vary from quarter to quarter and it is calculated on the portfolio value at the end of each previous calendar quarter. The client receives a quarterly bill for Interinvest's services, which the client can have paid either from the managed account or directly to the Applicant by way of check or other payment transfer. If fees are to be paid directly from the managed account a letter of authorization must be signed by the client and delivered to the custodian. When the fees are paid directly from the account, the client receives notification of the fees paid from the custodian as well as from Interinvest.

The fee for the first quarter of services, the initial fee, is payable in advance and is based on the market value of the securities or cash equivalents in the client's portfolio at the time he becomes a client. The initial fee covers the first quarter for which the account is under Interinvest's management, pro-rated to reflect the time from the opening date to the end of the quarter.

### ***Additional fees and expenses***

All Interinvest's clients must have an independent, third party custodian. If the custodian is a bank, the client will pay custodial fees directly to the bank. These fees are completely separate from any fees paid to Interinvest. In those cases where the client's custodian is a

brokerage firm, the client may pay custodial fees or a wrap fee which encompass both custodial fees and brokerage fees. These fees are separately negotiated by the client with the broker and are completely separate from any fees paid to Interinvest.

Interinvest is not a broker dealer and is not affiliated with any broker dealer. Consequently, clients may expect to pay commission costs to the broker executing any transaction on their behalf. In some cases these costs may be covered by a fee which encompasses trading costs and other services. See further explanation of our brokerage practices in Item 12.

Interinvest may, in the course of its investing activity on behalf of clients, occasionally take positions in closed end mutual funds or exchange traded funds (ETFs). These closed end mutual funds or exchange-traded funds are most often associated with a particular sector, region or country, where, in Interinvest's opinion, portfolio or regulatory constraints make this vehicle the most efficient way to invest in a particular market, or sector. Clients should be aware that since closed end funds and ETFs are run by another investment advisor, the effect is that Applicant's clients may be charged an advisory fee twice on the same assets, first by Interinvest and second by the advisor to the fund which charges shareholders a management fee. This second fee may be reflected in the share price of the closed end fund or ETF whose Net Asset Value would be reduced by the amount of the fee. Closed end funds and ETFs may trade at either parity, a premium or a discount to N.A.V. In most cases, clients would be able to invest directly in mutual funds without involvement by Interinvest. It is anticipated that only a small portion, if any, of a portfolio might be invested in closed end mutual funds or exchange traded funds.

The majority of Interinvest clients invest their cash balances in money market funds offered by their custodians. These funds have management fees and expenses which reduce the overall return from these money market funds. In addition, Interinvest clients are billed by Interinvest on the total value of their portfolios, including cash balances, so clients may wind up paying several layers of fees on the cash portion of their account.

### ***Pre-payment of advisory fees***

Interinvest's fees are paid for the quarter in advance. Since fees are paid in advance for each calendar quarter, termination of Interinvest's services prior to the quarter end would result in a prorated per diem reimbursement of unearned fees based on the written date of termination. Fees are prorated on an actual calendar basis and are calculated by multiplying the fee originally billed by the ratio of the days remaining in the quarter beginning with the day written instructions to terminate are received divided by the total number of days in the quarter.

### ***Other compensation***

Neither Interinvest nor any supervised person receives any compensation from the sale of any investment products. Interinvest's sole compensation is from the management fees paid by clients for investment advisory services.

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

Interinvest does not at this time charge performance-based fees to any clients. All Interinvest's clients are charged a negotiated fee based upon the size of the portfolio, as described in Item 5 above. Interinvest reserves the right to modify and adapt its fee policies as it sees fits and in concert with its client's needs.

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

Interinvest manages accounts primarily for high net worth individuals, pension and profit sharing plans, trust or charitable organizations and corporations. For new accounts only, the minimum dollar amount of assets to be managed is generally \$500,000 for growth and balanced mandated accounts and \$1,000,000 for fixed income mandated accounts. These amounts are negotiable.

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

### ***Investment Strategy***

Interinvest's investment model begins with a "top-down" approach. Through an analysis of the current economic and geopolitical landscape, we anticipate secular trends and how they affect the world's financial markets. We believe that achieving above-average risk-adjusted returns starts with preserving capital during periods of market turmoil. As such, our analysis often adopts a contrarian viewpoint, seeking to challenge established



viewpoints. The first step in our "top-down" approach is therefore to identify when and where we think markets are most at risk. We believe we add significant value by simply avoiding what we judge to be the riskiest sectors of the market.

Interinvest's professional investment staff monitors a number of macroeconomic factors: the economic environment, central bank monetary policy, the inflation outlook, market performance, expectations for corporate profits and growth, and the political climate. By assessing the character of these "big picture" indicators and their potential impact on investors' returns we make the major asset allocation decisions that allow us to proceed to the next level in the investment process.

While the top-down analysis described above drives the investment process, it is the selection of individual securities that is ultimately responsible for the returns our clients enjoy. When it comes to selecting the components of our portfolios, the selection process is driven by a "bottom-up" approach. We are always fundamentally looking for situations where we believe the market is mispricing an asset. That mispricing can manifest itself as undervalued property, an unrecognized product cycle, or an early-stage business turnaround. Our concept of value in these cases is often informed by our macroeconomic analysis. Additionally we keep an eye out for certain known situations, such as M&A activity or even simple news flow, that can serve as catalysts for either creating a mispricing – or collapsing it.

### ***General Risks of Investing***

Minimizing risk is a core element of Interinvest's philosophy and hence a primary consideration in the development of its investment strategy. Interinvest seeks to avoid unusual risks and specifically looks to lower the overall risk of loss in its portfolios, however, as is the case with all investments, there are inherent risk associated with the Company's strategy and positions.

With relatively few exceptions, the ultimate risk associated with any security is a complete loss of capital. Any investor should be aware that, however remote the possibility, the worst-case scenario when investing in either equity or fixed-income markets is a total loss of the capital at risk. In terms of the probability and severity of a potential loss, generally equity markets tend to be more volatile and offer fewer legal safeguards than fixed income investments and therefore should be considered a riskier asset class.

Interinvest's particular strategy, as is the case with any actively managed account, entails considerable risks associated with human error or misjudgment in both the formulation of our top-down macroeconomic view and/or with the fundamental analysis leading to our bottom-up security selection process. In addition, there are risks associated with unknown and/or unpredictable events that materially affect the investment decision-making process (e.g. acts of God, or acts of outright fraud). From an investor's point of view, Interinvest may also undertake certain actions (e.g. realizing short-term gains/losses, or generating

transaction costs) that result in a lower rate of return. In an effort to be transparent about these costs, Interinvest always discloses performance net of fees and accounts for securities to reflect commissions paid.

Beyond thinking about risk in our top-down market overview and our bottom-up security selection process, we have also incorporated a differentiated approach to risk management into our portfolio construction process. We believe that the standard portfolio construction discussion, typically focused on the balance between debt and equity, addresses only a narrow slice of the risk spectrum and importantly fails to protect against the most severe instances of market turmoil. In periods of major market dislocation, correlations across seemingly disparate asset classes often increase due to market dynamics. We believe that markets are both repetitive and adaptive, in the sense that investment bubbles driven by crowd psychology are recurrent and perhaps unavoidable, but they seldom manifest themselves in exactly the same way. In other words, any investment or asset class can be made unsound. Our answer to this dilemma is to construct a diversified portfolio of asymmetric risk/reward situations that will each pay off under distinct scenarios. We complement this approach with high balances of cash or instruments that we view as cash proxies when market conditions warrant such defensiveness (e.g. gold). The goal is to construct a portfolio that is robust in protecting the client against the unexpected, and maximizes the advantages of a contrarian active manager. We can then tailor this mix of exposures to our client's needs without diluting our capabilities and effectiveness.

### ***Risks of Investment Style***

Interinvest believes that market forces give rise to periods when active managers outperform the indices and counterbalancing periods when active managers underperform the indices. Interinvest further believes that there are similarly significant periods when a growth orientation will outperform a value orientation, such as Interinvest uses, and other times when a value orientation will outperform the growth discipline.

There are risks associated with any investment style. Interinvest utilizes a top-down investment style which emphasizes asset allocation. Interinvest believes that its decision to hold substantial cash positions, when in its opinion the market risks are deemed to be high, is a legitimate tool to control overall portfolio risk. While it is true that holding a portion of the portfolio in cash, in lieu of being fully invested at all times, may cushion portfolios from the full impact of broad market declines, this strategy heightens the risk of under-performance during periods of broad market advance. As such, this strategy is not appropriate for aggressive investors who may choose to direct Interinvest to maintain a certain maximum level of cash in their portfolio if they do not wish to have Interinvest exercise its own judgment on their behalf.

Interinvest is an active manager and does not attempt to mirror the composition of any broad national or global index. The selection of individual securities meeting Interinvest's criteria of value at a reasonable price gives rise to instances when the Interinvest may avoid some sectors or markets entirely. This gives rise to the risk of underperformance relative to a benchmark index.

Interinvest further believes that even conservative portfolio objectives may be served by establishing small positions in companies which might on their own be thought of as "aggressive", rather than conservative holdings. By diversifying portfolios as to asset class, country weightings, and industry exposure, and limiting the weight of individual positions in the portfolio to generally 1-3% of the portfolio, although in unusual instances the actual weight of a position may be higher than this, Interinvest believes that the appropriate way to judge the risk in a portfolio is by looking at the portfolio as a whole. Consequently, while Interinvest considers itself to be a conservative, risk-averse manager, clients may from time to time hold a number of portfolio positions, which in and of themselves, would not necessarily be thought of as "conservative" holdings.

Interinvest invests across the capitalization spectrum in large cap, mid-cap and small-cap stocks for client accounts. It should be noted that many small capitalization stocks are less well known and more thinly traded than large-cap securities, meaning that it is possible that these holdings can experience above average price swings and may be more difficult to sell quickly at favorable prices.

### ***Risks of Investing in Foreign Securities***

Interinvest believes that investing globally (for Global and Global Balanced accounts) and internationally (for International Accounts) exposes investors to more opportunities for gain. At the same time, there is no guarantee that purely domestic investors may not experience higher returns in any given period than investors who are globally diversified. Notwithstanding the foregoing, investing in foreign markets, both developed and so-called emerging markets, entail certain specific risks that may differ from those incurred by purely domestic investors. Different countries have different accounting standards and different regulations relating to disclosure of company results and operations. Public information about securities of foreign issuers may be more limited than experienced by investors in domestic equities. Interinvest may invest in international companies which issue American Depositary Receipts (ADRs), American Depositary Shares (ADSs), European Depositary Receipts (EDRs), or Global Depositary Receipts (GDRs), or may invest directly in ordinary shares (Ords). For a variety of reasons, including a perception of improved reporting standards and easier pricing, some of Interinvest's portfolios may be managed in ADR-only form. For certain issuers, ADR's may have substantially less liquidity than is available from the issuer's ordinary shares, which may result in higher prices paid or lower prices received by the client. Many international companies do not have shares that trade in ADR form, resulting in the fact that an ADR only portfolio may have less diversification than a portfolio consisting of ordinary shares.

International investing entails a number of risks not normally experienced or considered by purely domestic investors. These risks apply to portfolio holdings, be they ordinary shares, ADRs, ADS, EDRs or GDRs. They include, but are not limited to, the following areas:

**Political Risk** - Many areas of the world are considerably less stable politically than the United States. While the majority of Interinvest's international investments are made in what are deemed to be politically stable countries such as Canada, the United Kingdom, Spain, France, Germany, Italy, Australia, Sweden, Finland, the Netherlands, and Japan, Interinvest occasionally invests in so-called emerging market securities in markets where the risk of political upheaval is much greater. Emerging market securities generally pose greater risk and volatility characteristics than do securities of issuers in the more established markets of developed or G-7 countries.

**Currency Risk** - Any company that has earnings in more than one currency has a measure of currency risk. Foreign securities, which both have significant earnings in another currency, other than the U.S., and whose prices are denominated in a foreign currency, expose investors to the risk of substantial fluctuation in value as the result of relative exchange rate movements. The analysis of this potential impact is a significant part of the Interinvest's top-down investment strategy, but there can be no guarantee that portfolios may not be negatively affected by underlying currency fluctuations. Interinvest believes that currency hedging for the majority of non-institutional equity portfolios is too costly and unwieldy and consequently Interinvest does not engage in currency hedging for most equity clients.

In addition to political and currency risk, investors in international securities may also experience risks greater than those experienced by domestic investors in the areas of the imposition of exchange controls, the possibility of nationalization of assets, confiscation of corporate assets, or taxation of proceeds or profits. Dividends and interest received may be subject to withholding taxes of 15-30% or more, which may reduce overall returns to investors and which, in some cases, may not be refundable.

Additionally, international investors experience risks associated with differential growth rates in various economies, the impact of diverse fiscal and monetary policies on national markets, different rates of inflation as well as the economic impact that policies such as the imposition of protectionist measures, such as trade barriers, may have on foreign markets. Foreign economies, which are often very dependent upon trade, are also extremely sensitive to changes in the growth rates of the United States, as well as in their own domestic economy, and this sensitivity is often reflected in their capital markets.

## **Item 9: Disciplinary Information**

Interinvest Corporation and its management have not been subject to any sanction, judgment or other type of administrative proceeding before the SEC or any other federal or state regulatory agency in the past 10 years. Neither the Company nor its officers and employees have been the subject of a lawsuit or other form of complaint by a present or former client in the past 10 years.

In 2007 Dr. Hans Black, the Company's Chief Investment Officer, was fined in Quebec, Canada by the Autorité des Marchés Financiers ("AMF"), the Quebec financial regulatory authority, for failing to disclose in a timely basis to the AMF lawsuits to which he was a party. Dr. Black is registered with the AMF in Quebec as an investment advisor and the AMF previously had a requirement that registered persons must disclose to the AMF within 10 days all civil actions to which they are a party where the total value of the action is greater than CAD \$50,000 regardless of whether the suit is connected to the person's registration or involvement in the investment business.

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

Neither Interinvest Corporation nor its management is registered as any type of broker, dealer or broker-dealer. Furthermore neither Interinvest nor its management is related, in a business sense, to any other financial industry participant. Interinvest does not have any relationships or arrangements with other financial industry participants to direct business in ways that are likely to create conflicts of interest.

Interinvest Corporation does not recommend or select other investment advisers and does not pay or accept referral fees. Please see items 11 and 14 for more detail.

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

### ***Code of ethics***

Interinvest has a written Code of Ethics which imposes certain fundamental standards of conduct on all of Interinvest's employees, officers and directors. It is designed to ensure that as a fiduciary Interinvest always places the interests of its client's above those of any of its employees, officers, directors or any other individuals who provide investment advice to Interinvest clients. A copy of the complete Interinvest Code of Ethics is available to any client or prospective client upon request.

### ***Participation or interest in client transactions and personal trading***

Interinvest believes in always putting client's interests first. As part of the Company's practices to ensure that this standard is always met, the Company maintains a written policy relative to officer and employee personal trading as well as participation or interest in client transactions. Interinvest allows its officers and employees to invest in securities personally, including those held for clients. The Company believes that subject to proper protections and procedures the personal ownership by Interinvest management and employees of the same securities found in client accounts helps create a deeper alignment of interests between clients and the Company.

Interinvest has a written policy requiring its related persons to get approval from management prior to purchasing securities (other than U.S. Government and agency bills, notes and bonds or open end mutual funds not managed by Interinvest) if the securities being purchased are owned by clients or there is reason to believe that they are being considered for purchase for clients. In addition, related persons must obtain approval for any personal sale of a security that is currently held in client accounts. Any such approval will depend on a determination that the transaction by Interinvest or the related person will not inappropriately use client assets, including information, for the personal benefit of Interinvest or the related person and will not otherwise harm the respective clients' interests.

From time to time, Interinvest and its officers and employees who make and implement purchase and sale decisions on behalf of Interinvest's clients, may recommend or acquire for a client a security in which they have already established a position personally. Interinvest and/or its related persons may also purchase or sell securities for their own account(s) contemporaneously with purchase or sales of the same securities for clients' accounts, subject to the policy referred to above. Readers of the monthly newsletter are informed, "the security portfolio of our employees and officers may in some instances include securities mentioned in this issue".

Employee sales or purchases of securities that are currently owned by clients require written pre-clearance to be obtained before commencing a trade. The purpose of this policy is to ensure that Interinvest can be satisfied that no client's interests will be adversely impacted by the action of the employee.

Interinvest requires that all officers, directors and employees submit at least quarterly statements listing securities transactions by themselves and any immediate family over which the individual exercises investment authority. Furthermore, these individuals must also submit annual updates of their holdings, which are then reviewed with the quarterly reports for accuracy, and purposes of verification. All employees must certify annually that they have read, understood and abided by Interinvest's Code of Ethics as well as additional policies. Interinvest's management reviews these statements to ensure that no conflicts of interest exist that could have a material negative effect on client portfolios.

## **Item 12: Brokerage Practices**

### ***Selection of broker-dealers***

Most client accounts managed by Interinvest are fully discretionary, meaning that Interinvest has complete authority to determine the specific securities and the amounts to be bought or sold, subject to any restrictions imposed in writing by the client. Additionally, Interinvest may either have complete discretion to determine through which broker-dealer securities are to be bought or sold and the commission rates to be paid when effecting such transactions or clients may direct Interinvest to use a specific broker.

Interinvest understands that clients may have varying reasons for establishing and maintaining relationships with their respective broker-dealers and that these clients may obtain varying degrees and kinds of services from their designated broker-dealers. Therefore, Interinvest is not in a position to, and does not as a matter of general policy, negotiate commission rates on behalf of such clients who choose their own broker-dealers or monitor or evaluate the commission rates being paid by such clients or the nature and quality of the services they obtain from their broker dealers.

Interinvest's experience is that clients who utilize a broker dealer selected by the Applicant often pay lower rates of commission on transactions, or may be more able to obtain best execution, than the clients who utilize designated broker-dealers. On the other hand, clients who utilize broker-dealers selected by the Applicant may incur additional costs associated with obtaining custodial services from a bank or other financial institution. Thus such clients may pay higher aggregate costs in respect to transactions for their accounts than those incurred by clients who utilize designated broker-dealers. Finally, Interinvest understands that clients who utilize designated broker-dealers obtain certain services in addition to execution and clearance and settlement from such designated broker-dealers that are not received by clients for whom Interinvest selected broker-dealers. Clients should take all these considerations into account when deciding whether to designate a broker or to give broker discretion to Interinvest.

In those instances where Interinvest must choose a broker-dealer to execute client trades, Interinvest uses a number of criteria in the selection process. Interinvest seeks brokers that are able to offer transparent pricing and execution. In addition Interinvest looks at the broker's reliability and consistency in being able to settle trades in a timely and resource efficient manner. In practice this means that we look for large, low-cost, platform brokers with significant market presence and back office capabilities. The Company conducts the majority of our trading with these few brokers, as we recognize that there are substantial benefits to having a consistent trading system in place that can handle a large volume of order flow in an efficient manner. There are instances however, often owing to a specific

factor such as liquidity or specialization in a particular asset class, where we will trade with other broker-dealers or enter into relationships with additional broker-dealers.

Interinvest has and may in the future enter into a number of soft-dollar relationships. Interinvest currently receives soft dollar benefits from a number of brokers with whom we execute transactions. Interinvest as a firm benefits from these soft dollar arrangements, as it is able to use these generated commissions to pay for investment research products that would otherwise require a cash outlay. These benefits include proprietary research generated from our brokers and also third party research from large aggregated providers such as Bloomberg & Reuters as well as smaller independent firms. In total our soft dollar research providers include approximately 20 sources and provide information and analysis on specific securities, macroeconomic themes, geopolitical issues, market timing services, as well as current and historical price and volume information and associated analysis and studies. A complete list of our current soft dollar providers can be provided upon request. Please keep in mind that the list is subject to change and generally does vary on an annual basis. Soft dollar arrangements are negotiated at the inception of our dealings with any particular broker and generally are constituted according to our specifications. As a result all of our soft-dollar arrangements are substantially similar. Interinvest may however have an incentive to select a particular broker because we want access to their proprietary research. It should generally be assumed that the total brokerage amount paid by a client is therefore higher than what they would otherwise pay absent any soft dollar arrangement. Interinvest's interest in any current or future soft-dollar arrangement may differ from the financial interest of our clients.

Due to the shared and changing nature of investment research together with the fact that research is paid for over a period of time whereas any trade is effectively instantaneous, any soft dollar commissions that are used to pay for research benefit all our clients as a group rather than the specific account that generated the specific commission. All of our clients for whom Interinvest selects the broker are subject to the same soft dollar arrangements. Due to the fixed costs nature of investment research and the varying size of individual trades for each account, smaller accounts can be thought to benefit disproportionately from this arrangement. They receive from their point of view a similar size trade (as a percent of the overall portfolio) but pay for a smaller absolute piece of the overall research.

Interinvest does not direct brokerage toward a specific broker as compensation in return for client referrals. In those instances where client's funds are held at an institution which functions as both custodian and broker, Interinvest does not direct or otherwise oversee brokerage practices. Such accounts and arrangements are as a rule the result of specific client wishes. In a directed brokerage account, the client may pay higher broker commissions on a per share basis than in other accounts where Interinvest chooses the broker. Additionally a directed brokerage client may not be able to benefit from trade aggregation.



### ***Aggregation of securities trading***

Interinvest will often aggregate orders in order to minimize market impact and assure fair treatment of all clients. These decisions are often made on a security by security basis with consideration given to market liquidity and the time sensitivity involved in the particular transaction.

## **Item 13: Review of Accounts**

### ***Interinvest's review client accounts***

Portfolio Managers and Interinvest's Chief Investment Officer review portfolios at least once a month, but often more frequently depending on portfolio, market and client circumstances. A client's transfer of funds either into or out of a managed account will also trigger a review to bring the account into balance with the client's objectives and the firm's investment allocations. Interinvest's portfolios are reviewed no less than weekly for performance and all investments are constantly monitored on this criteria with reviews being initiated to address the reason for any outliers.

The Chief Investment Officer is responsible for setting overall portfolio strategy on both a macro and micro level. Portfolio Managers follow developments related to specific securities. Reviews are intended to ensure that portfolio asset allocation and composition reflects not only the firm's capital market assumptions but also the investment objectives of each client.

Besides the Chief Investment Officer, at any given time, Interinvest may employ a number of Portfolio Managers and/or Assistant Portfolio Managers. In addition to being a Portfolio Manager, Interinvest's President also acts as a supervisor.

Portfolio Accountants monitor the portfolios on a daily basis to ensure that transactions are correct in terms of quantity and price. These individuals also reconcile client records with the custodian banks or brokerage firms; this process functions as an important checking mechanism that is used in conjunction with regular reviews conducted by Portfolio Managers.

### ***Client Reports***

All clients receive monthly printed statements of their accounts and account activity from their individual custodians. The nature and frequency of Interinvest's regular reports are defined by the individual client's needs as addressed in Applicant's contract in Schedule

A. At a minimum, all clients receive a printed quarterly valuation statement from Interinvest. Clients may request such additional quarterly written statements as a portfolio appraisal, a letter of review and / or a performance report. Some clients request more frequent reports, while other clients may at their request receive less frequent reports. In some cases, based upon the preference of the client, portfolio reviews and updates may also be done in person or over the telephone on either a set schedule or as warranted by individual circumstances.

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

Interinvest does not currently compensate any non-supervised persons for client referrals, although it reserves the right to do so in the future. In the event that this does occur, the individual supplying the referral would be paid a portion of the management fee paid by any client he or she referred to Interinvest. The inherent conflict of interest of the referring person would be disclosed in writing to the potential client in advance of their becoming a client and written acknowledgement of the relationship would be obtained. The potential client would be informed that they would pay no additional fee to Interinvest with respect to the referral.

## **Item 15: Custody**

Interinvest Corporation is not a custodian and as such does not hold client assets. All clients therefore must have an independent third-party custodial relationship for their funds and securities with either a broker-dealer, a bank, or other qualified financial institution as a prerequisite to Interinvest's management of their account. Interinvest ensures that clients are set up to receive account statements from their broker-dealer, bank, or qualified custodian on a monthly basis. Clients should carefully review these statements and compare them to any statements that they receive from Interinvest. Additionally, clients are encouraged to contact Interinvest with respect to any questions which might arise from their review of these monthly statements from the custodian.

## **Item 16: Investment Discretion**

For the majority of its clients, Interinvest assumes discretionary authority in regards to the sale of any or all of the securities contained in the client's portfolio or the purchase of additional securities or both. This authority is specifically detailed in the contract between the client and Interinvest which gives Interinvest the right to make purchase and sale decisions on the client's behalf and to cause these transactions to be executed.

In addition to executing the contract with Interinvest, all clients must also execute an agreement with their custodian, which may include a separate limited power of attorney or trading authorization, giving Interinvest the authority to make purchase and sale decisions on the client's behalf, but never to have custody of the client's assets.

The investment objectives and policies for the management of the client's managed assets, as well as prohibited investments, are set forth in Schedule A of Interinvest's contract.

Clients may specifically limit Interinvest's authority to transact in certain types of investments, such as, for example, options, or certain sectors, such as, for example, tobacco stocks or defense stocks. Clients may also define minimum or maximum ranges of security exposure in their account or set any other guidelines which may be appropriate in their circumstances. Prior to executing the contract, Interinvest will determine whether it can comply with all client guidelines. If it cannot do so, Interinvest will so inform the prospective client who may then choose to either modify his/her guidelines or to find another manager.

The majority of Interinvest's clients give Interinvest broad discretion to invest in permitted investments in publicly traded equity and fixed income securities.

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

Interinvest does not vote client securities except in certain special circumstances and in accordance with the terms of the client's specific advisory agreement. In the event that Interinvest does undertake to vote client securities, Interinvest shall vote proxies related to securities held by any client in a manner that is in the best interest of the client. In this case, Interinvest shall consider only those factors that relate to the client's investment(s) or that are established by the client's written instructions. Such factors will include how its vote will economically impact and affect the value of the client's investment.

Interinvest has a set of written policies and procedures in place which are designed to reasonably ensure that proxies are voted in the best interests of the clients for whom Interinvest has voting authority, and describes how Interinvest addresses material conflicts between its interest and those of clients with respect to proxy voting.

Interinvest utilizes the services of an outside proxy firm, ISS, to act as agent for the proxy process, to maintain records on proxy votes for clients for whom Interinvest votes proxies, and to provide independent research on corporate governance, proxy and corporate responsibility decisions.

Proxy votes generally will be cast in favor of proposals that:

- ❖ Maintain or strengthen the shared interests of shareholders and management
- ❖ Increase shareholder value
- ❖ Maintain or increase shareholder influence over the issuer's board of directors and management, and
- ❖ Maintain or increase the rights of shareholders

Proxy votes generally will be cast against proposals having the opposite effect.

Interinvest recognizes that conflicts between itself and clients may arise in voting the proxies of public companies and that these conflicts must be addressed. The Chief Investment Officer is responsible for identifying potential conflicts of interest in regard to the proxy voting process and notifying the Chief Compliance Officer of the same. Where appropriate, Interinvest will use one of the following methods to resolve such conflicts, provided such method results in a decision to vote the proxies that is based on the clients' best interest and is not the product of the conflict:

1. provide the client with sufficient information regarding the shareholder vote and Interinvest's potential conflict to the client and obtain the client's consent before voting;
2. vote securities based on a pre-determined voting policy set forth herein;
3. vote client securities based upon the recommendations of an independent third party; or
4. request the client to engage another party to determine how the proxies should be voted.

Consistent with SEC Rule 206(4)-6, Interinvest will keep all records required by law in connection with its proxy voting activities for clients and shall provide proxy voting information to clients upon their written or oral request. A copy of Interinvest's proxy voting policies and procedures are available to clients upon request by contacting Interinvest at 192 South Street, Suite 350, Boston, MA 02111, by email at [boston@interinvest-us.com](mailto:boston@interinvest-us.com), or by calling 800-288-7950.

Interinvest does not vote proxies for most of our clients. Most clients can expect to receive proxy voting materials from their custodian or the company's transfer agent and

are responsible for submitting the proxy votes on their own. Clients are welcome to contact their portfolio manager at Interinvest to discuss any questions they may have about a particular solicitation.

## **Item 18: Financial Information**

There is no material information that is required by this item to be disclosed by the Company.

## **Item 19: Requirements for State-Registered Advisers**

Aside from the SEC, Interinvest is registered as an Investment Adviser with the states of New Hampshire, Massachusetts and Vermont.

### ***Additional Principal Executive Officers and Management Persons***

Stanley T. Schmidt graduated from Cornell University and is a Chartered Financial Analyst as well as a member of the Boston Security Analysts Society and the CFA Institute. Prior to joining Interinvest, Mr. Schmidt was associated with Dean Witter Reynolds.

Stanley T. Schmidt has no disciplinary history to report and has no outside business activities to report.