

## **Essex, LLC**

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## **Firm Brochure**

**As Mandated by the United States Securities and Exchange Commission  
Part 2A and Part 2 B of Form ADV**

**The information contained herein is accurate as of December 31, 2012**

**This brochure provides information about the qualifications and business practices of Essex, LLC. It also includes supplemental information about employees, supervised persons and others with whom we transact business. If you have any questions about the contents of this brochure, please do not hesitate to contact us at 1-847-777-7800. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Essex, LLC, its employees and supervised persons, is also available on the United States Securities and Exchange Commission website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

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## **Material Changes**

As mandated by the United States Securities and Exchange Commission laws, rules and regulations, we are providing you with an updated version of our ADV Part 2A and the information mandated in the supplemental Part 2B. We are required to provide you with an updated version if, in the future, any material change(s) take place at Essex, LLC.

## **Essex, LLC Advisory Business**

Essex, LLC is a registered investment adviser with the United States Securities and Exchange Commission. This registration with the Securities and Exchange Commission does not imply a specific level of skill or training. We also caution that with any investment, there is a risk of capital loss.

The employees of Essex, LLC are consultants with decades of experience in the investment management, tax and estate planning practices. Essex, LLC generally requires that all persons associated with the organization in professional capacities will have at least a college education, although in exceptional circumstances significant business experience may be accepted in lieu of a college degree. Most members of the professional staff have advanced degrees in business or have earned other professional designations.

James W. Hartwell, born in January 1966, is the President of Essex, LLC. At present he owns 65.34% of Essex, LLC. Mr. Hartwell received both his undergraduate degree and his MBA from Mankato State University in 1988 and 1994 respectively. He received his Certified Funds Specialist (CFS) designation in 1994. The Certified Fund Specialist is a designation of the Institute of Business & Finance and is the oldest designation in the mutual fund industry. This designation will help the investment adviser in understanding how a mutual fund investment will interact within the portfolio through the criteria such as alpha, beta, correlation coefficient and how this data can be used in the construction of the portfolio. In 1991 Mr. Hartwell started Essex Financial and in 1997, along with Mr. Arthur Freedman, began Essex, LLC. He is a member of the Entrepreneur Organization (EO). In addition to his obligations at Essex, LLC he is also a member of the investment committee for the Little City Charity.

Arthur A. Freedman, born in December 1949, is the Chief Operating Officer of Essex, LLC. At this time Mr. Freedman is an owner of 31.52% of Essex, LLC. He is a graduate of the University of Illinois and has received his MBA from Northwestern University. In addition, he is a Certified Public Accountant (CPA) with membership in the American Institute of Certified Public Accountants (AICPA) and the Illinois CPA Society. In order to obtain the professional designation of CPA one must have passed the Uniform Certified Public Accountant Examination and the requisite exam on ethics. Once conferred, the CPA must generally complete a designated number of hours of continuing education to maintain the CPA designation. The American Institute of Certified Public Accountants, (AICPA) is the national professional organization for Certified Public Accountants, (CPAs), in the United States. The AICPA mission is to provide members with the resources, information, continuing education and leadership that enable them to provide services in the highest professional manner to benefit the public. Prior to the

creation of Essex, LLC, Mr. Freedman was a senior partner in the Chicago accounting firm of Friedman, Eisenstein, Raemer, and Schwartz (FERS) where he headed the Personal Financial Planning division.

Charles D. Bradburn, Jr., born in September 1950, is the Chief Compliance Officer for Essex, LLC. He currently owns 2.48% of Essex, LLC. He is a graduate of the University of Dayton. After spending 15 years on Wall Street, he joined Essex, LLC in May of 1998. He has successfully completed the Certified Regulatory and Compliance Professional (CRCP) program sponsored by the Financial Industry Regulatory Authority (FINRA) in conjunction with the Wharton School at the University of Pennsylvania. This program required the completion of 120 credit hours of classroom instruction and passing the subject material examinations.

Mr. Mark Jacobs, while not an employee of Essex, LLC is by the Securities and Exchange Commission definition, a "supervised person" for the work he does with certain Essex, LLC clients. The supervision of Mr. Jacobs is performed by Mr. Bradburn, the Chief Compliance Officer of Essex, LLC. Mr. Jacobs does have an ownership interest in Essex, LLC. He was born in September of 1952 and has graduated from Marquette University. He is doing business as JF Financial Group, Inc., a State of Illinois registered investment advisor. One can contact Mr. Jacobs by telephone: 630-740-3453. He currently holds the Certified Financial Planner (CFP) professional designation. The CFP certification is conferred upon individuals who have completed an advanced college-level course of study in the subject areas of insurance and risk management, employee benefit planning, income tax planning, retirement and estate planning and investment theory and practice. Those individuals who have taken the courses are then required to successfully pass a comprehensive examination on the above enumerated subjects. Continuing education requirements and adherence to the CFP Board's Standards of Professional Conduct is mandatory.

Mr. Hartwell, Mr. Freedman and Mr. Bradburn comprise the investment policy committee for Essex, LLC. The investment policy committee will offer advice to our clients on the following types of investment vehicles:

- Exchange listed, over-the-counter and foreign stocks or American Depositary Receipt (ADR) equities
- Warrants
- Corporate debt
- Commercial Paper
- Certificates of deposit
- Municipal Securities
- United States Government or Agency debt
- Option Contracts
- Futures Contracts on tangibles or intangibles
- Investment Company securities including mutual fund shares, variable insurance contracts and variable annuities.

None of the employees of Essex, LLC are registered representatives of a broker/dealer. A broker/dealer is one who makes a market, or maintains an orderly market in a security, and will buy and sell securities from their inventory. Essex, LLC does not make a market in securities, nor do we underwrite new issue securities.

Essex, LLC primarily provides investment management services, but also provides advice through consultations which may involve tax or estate matters and not involve securities.

All clients have varying investment objectives, time horizons, and risk tolerances. At Essex, LLC, upon consultation with the client or potential client, we will construct an investment portfolio in an attempt to achieve those objectives.

Essex, LLC manages client accounts on a discretionary and a non-discretionary basis. This gives Essex, LLC the authority to supervise and direct the investment of the client's account without prior consultation with the client. The Essex, LLC trading authority may be made subject to conditions imposed in writing by the client, e.g., where the client restricts or prohibits purchases or sales of certain securities. For example; the client may have inherited securities from a relative, a client may own stock in the company for which they work, or the client would prefer to avoid investment in various sectors of the market such as tobacco or alcohol related securities.

The investment advisory services consist primarily of a portfolio management service that allocates and periodically re-allocates the client assets among various investment securities. The client assets will be invested in stocks, exchange traded funds (ETFs), bonds and investment company shares (mutual funds). Based upon a review of the client's investment objective, risk tolerance and financial and tax situation, Essex, LLC will create a model client portfolio. Clients with similar characteristics will receive similar portfolio recommendations and investments.

Essex, LLC does not participate in any wrap fee programs. A wrap account's investment program is a consulting relationship in which a client's funds are placed with one or more money managers, and all the administrative and management fees, along with commissions, are wrapped into one comprehensive fee. Essex, LLC manages all client investment accounts directly.

### **Assets Under Management**

Essex, LLC manages investment accounts on a discretionary and a non-discretionary basis.

As of December 31, 2012, Essex, LLC managed approximately \$164,051,339 in assets for 836 accounts. Of this amount, \$125,791,577 was managed on a discretionary basis for 686 accounts and \$38,259,762 was managed on a non-discretionary basis for 150 accounts.

## **Fees and Compensation**

Essex, LLC receives compensation for the investment portfolio services rendered based upon a percentage of assets under management or based upon an hourly billing fee.

In certain situations Essex, LLC provides consultations and services on an hourly fee basis. The fee structure is as follows:

- |                       |           |
|-----------------------|-----------|
| • Partner / Principal | \$275-350 |
| • Senior Consultant   | \$160-200 |
| • Consultant          | \$100-150 |
| • Account Supervisor  | \$60-95   |

The above fees are billed on a monthly basis. Typically the bill is sent the month after the services have been provided.

Clients participating in the portfolio management service are required to enter into an investment advisory engagement. The investment advisory agreement takes effect the date assets are deposited into the account and continues until terminated. The fees payable by the client, for services rendered by Essex, LLC, pursuant to the agreement, shall be paid quarterly, in advance at an annual rate based upon the value of the client's account on the first day of the calendar quarter and dividing the amount by four. For any time period that may be less than a full quarter, the fee will be determined by daily proration.

Clients participating in the portfolio management service are required to enter into an investment advisory engagement. The investment advisory agreement takes effect the date assets are deposited into the account and continues until terminated. The fees payable by the client, for services rendered by Essex, LLC, pursuant to the agreement, shall be paid quarterly, in advance at an annual rate based upon the value of the client's account on the first day of the calendar quarter and dividing the amount by four. For any time period that may be less than a full quarter, the fee will be determined by daily proration.

Funds deposited or withdrawn during the quarter are billed, based upon the flow of funds into or out of your account, and the fee calculation upon that flow of funds, will be reflected in the next quarter billing statement. The fee(s) will be prorated based upon the date of the transaction. A withdrawal of funds during the quarter will result in a rebate. A deposit will result in a prorated fee which will be debited from your account.

The fee is typically billed to and paid by the client's custodian(s) from the assets of the client portfolio. An arrangement can be made possible for a billing statement to be generated and the management fee paid directly to Essex, LLC by the client. The usual fee for the investment management services is one percent per annum. In certain circumstances, typically at the discretion of the advisor, these fees may be adjusted due to the size and nature of the engagement.

The agreement may be terminated by the client, or the Advisor, by giving written notice to the other party and specifying the date of termination. In the event that the agreement is terminated during a calendar quarter, the fees billed to the account will be refunded on a prorated basis.

The client may absorb additional fees in the management of their investment account. These fees will be generated by the custodian (trade commissions), on a per transaction basis, or a mutual fund company with their investment management costs, in addition to the fee structure of Essex, LLC. Please read the section on Brokerage Practices on page 11.

The fees charged for the portfolio management service are negotiable in certain circumstances and may be waived in whole or part, depending upon the nature and/or size of the engagement. The fee may be reduced or waived for members, managers, officers or employees of Essex, LLC and the members of their families.

Under no circumstance is an employee accepting additional compensation for the sale of securities or other investment products which would include asset based sales charges or service fees from the sale of mutual funds.

The client has the option to utilize the services of other broker/dealers in the execution of securities transactions for the composition of their portfolios. We recognize that the client may have other investment relationships unrelated to or not affiliated with Essex, LLC. The client is not solely bound to use Essex, LLC with regard to securities transactions.

### **Performance Based Fees**

Performance based fees or incentive fees result in additional compensation, to an advisor, for producing above average results. These performance fees are more typically associated with commodity trading or hedge fund advisors who achieve, or top, a pre-set return. Under no circumstances does Essex, LLC accept or have arrangements with clients for additional compensation based upon performance standards.

### **Types of Clients**

Essex, LLC provides investment management services to a variety of clients. The majority of the clients are individuals. Some of those clients also have trusts and estates for which we provide advice. Additionally, the clients may own their business or corporations and as a result of that fact, we may provide advice for the retirement plans for those self-employed clients. Essex, LLC will also provide investment advice for individual employer-sponsored retirement plans such as a 401K or a 403B plan. Essex, LLC also provides investment advice to pension and profit sharing plans and charitable organizations.

## Methods of Analysis, Investment Strategies and Risk of Loss

Investing in securities involves the assumption of risk. If one is willing to assume that risk, one realizes that this risk could involve the loss of the dollar amount invested. There is no guarantee of profitability.

Essex, LLC through its analysis of stocks, bonds and other investments, attempts to limit this risk. In the composition of the client portfolio, we examine a number of items:

- **Economic indicators.** Economic indicators, leading or lagging, are key statistics showing the direction of the economy. Among them are the unemployment rate, factory utilization rate, inflation rates of the consumer price index, the producer price index, international trade data and others.
- **Fundamental analysis.** Fundamental analysis includes the analysis of the balance sheet and income statement of a company in order to forecast their future stock price. Fundamental analysis considers past records of assets, earnings, sales, products, management and the competitive market place for a particular company's product. By looking at this data, Essex, LLC tries to determine if a stock or sector is undervalued or over-valued relative to its current market price.
- **Technical analysis.** Technical analysis looks at the demand and supply for the securities based on trading volume and price movement. Technical analysis will utilize charts to identify and project price trends in a market or security. Some of the terms used in technical analysis might include the moving average, relative strength, resistance and support levels and others.
- **Annual Reports and Securities and Exchange Commission filings.** These filings are considered as part of the investment strategy. All publically listed companies on the various exchanges must file quarterly and annual financial reports. In addition, companies file other reports when ever there is a material event within the corporation. These reports can include changes within the corporate management, the award of stock options, changes in compensation and announcements of retirement or dismissal.
- **Financial publications and research materials of other analysts.** Essex, LLC will read and consider these reports in the composition of the client's portfolio. Charles Schwab & Co., Inc. is the custodian with whom Essex, LLC has a relationship. Schwab, in addition to their internal research department, also provides research by Argus, S&P, Credit Suisse and others.
- **Sector Analysis.** The sector analysis is used to determine which sectors, at a given moment in the economic cycle, will be overvalued or undervalued. Once the sectors with probable positive performance have been identified, Essex, LLC will use the above enumerated items in the construction of the model portfolios.

## Disciplinary Information

No employee, or supervised person, of Essex, LLC has been involved in a criminal or civil action in a domestic, foreign or military court. No employee or supervised person has been convicted of or pled guilty or "no contest" to any felony or misdemeanor that involved investments or an investment related business. Additionally, no employee or supervised person has been convicted or pled guilty or "no contest" to any fraud, false



statement or omission, taking of property, bribery, perjury, forgery, counterfeiting, or extortion or conspiracy to commit any of these offenses.

Essex, LLC, and the employees of the company, have never been the subject of any order, judgment, or decree that would permanently or temporarily prohibit us from engaging in any investment related activity.

The United States Securities and Exchange Commission, any other federal regulatory agency, any state securities regulator, or any self regulatory organization has never found any reason to cause Essex, LLC to lose its authorization to conduct investment related business.

### **Financial Industry Activities and Affiliations**

No employee, or supervised person, of Essex, LLC is registered with, or has an application pending registration, with a broker/dealer, commodity trading advisor, or futures commission merchant.

Essex, LLC does have relationships with other broker/dealers that could potentially pose a conflict of interest. Essex, LLC does have trade away agreements with Merrill Lynch, Jefferies & Co., William Blair, Mesirow Financial and UBS. These trade away agreements allow Essex, LLC to seek various pricing opportunities, typically for the purchase of fixed income products. Charles Bradburn of Essex, LLC has a brother who is employed by Merrill Lynch and has executed trades through his brother at Merrill Lynch. In all situations, the transactions were completed on a competitive basis so as to avoid any conflict of interest or favoritism.

By having these various agreements, Essex is seeking the best execution for a particular trade. For example, when a new issue comes to the market, or a new bond issue comes to market, certain brokers or dealers are part of an "underwriting group". It is in the best interest of the client to purchase an issue through a member of the underwriting group rather than pay a "mark-up" price from another broker or dealer who is not a member of the underwriting group.

Essex, LLC does not receive any direct or indirect compensation from those brokers/dealers with whom we transact business.

Essex, LLC, as was noted on page 3 under the section titled "Essex, LLC Advisory Business", also has an independent contractor agreement with Mr. Mark Jacobs, for which a compensation agreement has been executed. Mr. Jacobs also qualifies as an investment advisor in that he conducts business as JF Financial Group, Inc. JF Financial Group is an Illinois registered business entity providing investment advisory services. Mr. Jacobs is not a registered representative of a broker/dealer, a futures commission merchant, or a commodity pool operator or commodity trading advisor. Mr. Jacobs spends the majority of his time as an instructor for the Kaplan Financial Education organization, for which he receives a salary. Mr. Jacobs also owns a financial interest in Essex, LLC.

Essex, LLC will monitor and supervise the activities of Mr. Jacobs with regard to the investment advisory services rendered on behalf of certain Essex, LLC clients. In order to prevent any conflict of interest and to provide oversight of client activities, Essex, LLC has taken the following procedural steps:

- Prior to the client meeting, an agenda of that meeting must be prepared and submitted to the compliance officer for review.
- Minutes of the meeting must be noted, which will detail the conversations of the client meeting. Any items discussed at the client meeting which would result in a change to the client risk profile, investment portfolio composition, or any change to the account which differs from documents currently maintained, will be in writing.
- The minutes of the meeting will be submitted to the compliance officer for retention. When possible, the compliance officer will attend the client meetings. If the location or time of the meeting prohibits the compliance officer's attendance, the compliance officer will, without prior awareness being made to the solicitor, conduct a follow-up conversation with the client. The date and time of the conversation will be noted and included in the client file.

#### **Essex, LLC Code of Ethics**

Essex, LLC has a written Code of Ethics to which all employees must adhere. All employees have received a copy of the Code of Ethics and have agreed to the principles articulated in this document. The Code of Ethics and the Essex policies and procedures are written with a view to preventing violations of existing Laws, Rules, and Regulations. If an employee has reason to believe that there has been a violation of this Code, they are to report the situation to the compliance officer or the president of the company. In general, the employees and access persons shall:

- Place the interests of the Company's clients' funds before his/her personal interests;
- Conduct all personal securities transactions in a manner consistent with this policy so as to avoid any actual or potential conflicts of interest;
- Not take any inappropriate advantage of his/her position with or on behalf of the company;
- Employees and access persons must file a securities holdings report annually with the Compliance Officer and a report of all transactions on a quarterly basis. This information will include the security, buy or sale, quantity, symbol and the broker completing the transaction;
- The company maintains a "preclearance procedure" which mandates the steps which one would follow on a securities transaction so as to avoid conflict;
- Blackout periods exist where the Investment Policy Committee adopts a buy or sell program and access persons shall not act in a manner which could be construed as a conflict of interest in that transaction;
- Prior approval must be obtained before an investment in a Private Placement or Initial Public Offering (IPO) is made;

- Short term trading shall be avoided unless the Compliance Officer gives written approval;
- No advisory person may receive any gift i.e., anything of more than de minimis value from any person or entity doing business on or behalf of the company that poses a potential conflict of interest;
- No advisory person shall serve on a board of directors of a publicly traded company without prior authorization;
- Exemptions from the reporting requirements in certain security transactions are permitted. Some of the exemptions would apply, for example, to reinvestment of dividends in a Dividend Reinvestment Program (DRIP) with both individual securities, mutual fund shares or annuities, purchases or sales of non-volitional events such a merger/acquisition, recapitalizations or other similar transactions;
- At least annually the compliance officer will report to the Board of Directors regarding existing procedures with regard to personal trading activities, any recommended changes to policies or procedures, and a summary of any violations which occurred during the past year;
- The company forbids any employee or access person from participating in insider trading, or trading on material non-public information or from communicating material non-public information to others.

Essex, LLC will provide a copy of this Code of Ethics to any client or prospective client upon their request.

Essex, LLC is a registered investment advisory firm. It is not a broker/dealer. As such, we do not sell securities in which any employee or related person has a financial interest. We do not maintain an inventory of securities from which we would sell to our clients. Employees will not directly purchase or sell securities from their individual portfolio, to or from, a client account. Essex, LLC does, in managing client accounts, relay orders to brokers, dealers, or banks for the purchase or sale of securities. Essex, LLC does not receive any special compensation for this service.

Personal security transactions by the officers and employees of Essex, LLC are subject to personal security transaction procedures. The procedures apply not only to the transactions by that individual, but also to transactions for accounts in which that person, the person's spouse, minor children, or other dependent residing in the same household have an interest. Essex, LLC may from time to time execute a "block trade". A "block trade" is a trade in which a large number of shares are bought or sold and the allocation of that trade is made among many client accounts. Officers, employees and family members of Essex, LLC may participate in that transaction. The price at which the trade is executed will be the same execution price for all participating accounts. Commission rates will vary, however, depending upon the trade confirmation process. A lower commission rate is often available if one opts for the electronic delivery of the trade statement as opposed to receipt by mail. In the event that the trade is not executed in its entirety, the allocation will be made on a prorated basis so as to avoid any customer favoritism. Officers, employees and family members of Essex, LLC will pay a transaction commission but those individuals are not charged an investment advisory fee.

**Brokerage Practices**

While Charles Schwab & Co., Inc. is the custodian for the majority of our assets under management, it is not mandatory that clients open an account at Charles Schwab & Co., Inc. Clients participating in the portfolio management service are required to appoint a custodian of their assets who will provide for on-line services and other support to Essex, LLC. Certain client account assets are held at various custodians. This is a result of employment or retirement plan custody arrangements over which Essex, LLC has no control. Essex, LLC will work with those custodians in the management of the client investment portfolios.

When a client has designated relationships with more than one broker or dealer, and subject only to a client's direction to use that particular broker/dealer, Essex's overriding objective in selecting the broker or dealer for the client transaction is to seek the best combination of price and execution. The best price, taking into account the brokerage commission, if any, is an important factor in the decision. However, a number of other judgmental factors also may enter into the decision. These factors would include Essex's knowledge of negotiated commission rates available, the desired timing of the transaction, the activity existing and expected in the market for that particular security, confidentiality, execution, clearance and settlement capabilities of the broker or dealer and the knowledge of actual or apparent operation problems of the broker or dealer.

Soft Dollar arrangements are agreements between broker/dealers who will provide the proprietary stock research from their firm in exchange for the investment adviser or mutual fund company placing trades through that broker/dealer, thereby generating commissions for that broker. Essex, LLC has no soft dollar arrangements with any broker/dealer. As such, we do not have any reason to recommend any broker/dealer versus another with regard to the soft dollar practices.

**Brokerage for Client Referrals**

Essex, LLC does not direct commission generating trade activity to any broker/dealer in exchange for client referral business. Doing so could possibly subject the client to receiving unfavorable trade execution, higher commissions and could result in a conflict of interest for Essex, LLC.

**Directed Brokerage**

As is indicated in the section titled "Brokerage Practices", Charles Schwab & Co., Inc. is the custodian for the majority of client assets. It is the recommendation of Essex, LLC that clients utilize the services of Charles Schwab & Co., Inc. Essex, LLC has determined that Schwab offers the level of service, back office support, securities research information, trade execution, and financial strength that we consider in choosing a custodian.

Clients, however, do not have to establish an account with Charles Schwab & Co., Inc. The client may direct Essex, LLC to execute trades through another broker/dealer. By doing so, Essex, LLC relinquishes some control over that transaction. This transaction

may cost the client more in terms of commission rates, best execution price of the trade, the aggregation of the order to lower the commission and price. A certain times, Essex, LLC will initiate a securities transaction in which a number of client accounts will participate. At the time of the transaction, we will aggregate the order and place a block trade. The benefits of this transaction, commission, average price and allocation are described in the Code of Ethics section on page 9.

### **Review of Client Investment Accounts**

Essex, LLC continuously monitors the investment portfolios of all clients. Essex, LLC is aware, on a daily basis, of all cash flow into and out of client accounts. The monitoring of all investment portfolios is done by the Essex, LLC Investment Policy Committee which includes James Hartwell, President, Arthur Freedman, COO and Charles Bradburn, Compliance Officer and portfolio manager. Investment decisions for the client portfolios are influenced by the release of information about general market conditions, company specific information such as quarterly and annual financial reports, and global or other political events that could possibly have a bearing on the portfolio performance.

Clients will receive individual transaction reports from Charles Schwab & Co., Inc. or by the custodian holding their assets, for which Essex, LLC has been appointed investment manager. The client will also receive a monthly statement from those custodians. On a quarterly basis, Essex, LLC will provide a statement which will include all investment holdings and performance data for those assets held in custody at Charles Schwab & Co., Inc. Essex, LLC suggests and recommends that the client compare the statement from the custodian with the quarterly statement received from Essex, LLC. If there is any discrepancy, we urge the client to contact us immediately to resolve the difference.

### **Client Referrals and Other Compensation**

Essex, LLC may utilize the services of independent contractors. These individuals, on occasion, refer business to us. At this time, Essex, LLC has an agreement with one such individual. (See "Financial Industry Activities and Affiliations" on page 8). Essex, LLC, has a supervisory capacity in this situation. Essex, LLC will monitor all investment portfolio activity, review meeting agenda items, and mandate that those individuals that have the agreement with Essex, LLC abide by the laws, rules and regulations of the Securities and Exchange Commission. Under this arrangement, Essex, LLC will compensate those individuals on a quarterly basis for their services.

### **Custody of Client Assets**

The questions surrounding the custody of client assets became a focal point for the Securities and Exchange Commission after a number of well publicized situations that have shown to have financially harmed clients of those firms. Custody means "*holding, directly or indirectly, client funds or securities, or having any authority to obtain possession of them*", according to the Custody Rule. Because the Custody Rule is intended to deter potential advisor fraud, such as misappropriation of assets, one can see that this rule can be and is very broad in its interpretation.

Charles Schwab & Co., Inc. is the custodian of the majority of the assets under management at Essex, LLC. Some clients have custodial arrangements other than that which exists between Essex, LLC and Charles Schwab & Co., Inc. (See Brokerage Practices on page 11). The custodian(s) are the repository for the stocks, bonds and cash positions of the client. Essex, LLC does not hold the assets of our clients. However, according to the Custody Rule, and the fact that the clients have given us the authority to deduct the management fees from the client assets, we have the *“authority to obtain possession of them.”* Having the authority to debit advisory fees meets the custody definition, but if that is the only reason the advisor is deemed to have custody, then the Securities and Exchange Commission has permitted these transactions.

Because of the above stated concepts, we recommend that the client always review the monthly statements received from the custodian, with the prior months statement, and with quarterly statements provided by Essex, LLC. If there is any discrepancy, we urge the client to immediately contact Essex, LLC in order to resolve that issue.

### **Investment Discretion**

Upon completing, signing, and affixing his or her initials in the appropriate sections, for the account application from Charles Schwab & Co., Inc., (or the completion of the application process with any other custodian), the client has given us, upon the opening of the account, the following authorizations:

- Trading and disbursement authorization. This authorization allows Schwab to execute trades in the account at the direction of the investment advisor, Essex, LLC. It also provides for Essex, LLC to disburse assets to the client, or to remit checks, wire funds and make other disbursements as the client specifies.
- The application authorizes Essex, LLC the discretion to place trades in the account and,
- The application allows for Schwab to disburse investment advisory and any related fees to Essex, LLC upon instruction from Essex, LLC.

Additionally, as noted in the section describing the Essex, LLC Advisory Business on page 3, the client may place restrictions on the trading authority and Essex, LLC will honor the conditions imposed.

### **Proxy Voting of Client Securities**

Essex, L.L.C. recognizes its fiduciary obligations with respect to voting proxies of companies with securities that are owned by clients of Essex, L.L.C. and for which Essex, L.L.C. has been designated to exercise proxy voting power. Clients, however, have the ability to vote their own proxy statements if they so elect, on the Schwab Application Form. Clients may receive a copy of the Proxy Voting guidelines upon request. The Essex, L.L.C. Investment Policy Committee will vote proxies according to the following guidelines:

- 1) **Routine Matters:** Routine proxy proposals shall be voted in support of company proposals unless there is a clear and necessary reason not to do so. Routine matters include:

- A) Electing directors of the board;
  - B) Determining the size of the board of directors;
  - C) Changing the corporate name;
  - D) Appointing an auditor;
  - E) Splitting the company's shares of common stock;
  - F) Amending articles of incorporation that are required to comply with federal or state regulations; and
  - G) Changing the date, time, and location of the company's annual shareholder's meeting.
- 2) **Business Matters:** Business proposals that eliminate the rights of shareholders, especially minority shareholders, or the status of securities held, including ownership status, shall not be treated as routine; rather, they shall be carefully analyzed. These issues may be voted with management. However, business proposals that are non-routine or would impair the economic interests of shareholders may be voted against management. Examples of such proposals shall include, but not be limited to, the following:
- A) Requests to alter the bylaws to require a super majority of shareholders to approve a merger;
  - B) Anti-takeover proposals that could restrict tender offers or deny majority owners from exercising judgment;
  - C) Proposals to dilute existing shares by issuing substantially more stock without adequate explanation by management; and
  - D) Proposals that would enrich management excessively or substantially increase compensation awards or employment contracts to senior management that become effective when ownership of the company changes (also known as "golden parachute" awards).
- 3) **Other Matters:** On all other matters, the Essex, L.L.C. Investment Policy Committee shall vote in favor of proxy proposals judged to be in the best interests of the clients of Essex, L.L.C.
- 4) **Reporting Requirements:** All proxies voted by Essex, L.L.C. must be copied and filed for a period of three years in a manner that is readily accessible. In circumstances where the Essex, L.L.C. Investment Policy Committee votes against the management on a specific proposal, the reasons for such vote must be explained and documented and included in the file.

The client does have the ability to vote their own proxy statements. On the original account application, if the client desires, they can indicate if they wish to vote the proxy statement or give that authority to Essex, LLC.

### **Financial Information**

Essex, LLC is an Illinois based, privately held, Limited Liability Company. Rules and regulations mandate that if we have discretionary authority or custody of client funds or securities or require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, we would have to include a balance sheet for our most recent fiscal year. Please reference the Custody of Client Assets section on page 13. Since

Essex, LLC does not require prepayment of fees six months in advance, and we do not have custody of client assets, there is no balance sheet attachment to this document. At no time in the company's history has Essex, LLC been the subject of a bankruptcy petition or filing.