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**Form ADV, Part 2A
Brochure
March 16, 2015**

This brochure provides information about the qualifications and business practices of Capital Gains Incorporated. If you have questions about the contents of this brochure, please contact us at (847) 318-9975. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about Capital Gains Incorporated is available on the SEC’s website at www.adviserinfo.sec.gov.

Please note that registration as an investment adviser with the SEC does not imply any certain level of skill, training or ability with respect to the provision of investment advisory services.

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SUMMARY OF MATERIAL CHANGES

There are no material changes to this brochure. This brochure was updated on March 16, 2015, providing information that is designed to update information we provided to our clients and potential clients in our previous brochure, dated March 24, 2014.

ADVISORY BUSINESS

Capital Gains Incorporated (identified as “Capital Gains” in this brochure) is a subchapter “S” corporation, incorporated in the state of Illinois in 1992 and is a registered Investment Adviser with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Capital Gains Incorporated is also registered with the state of Illinois. Gary Karshna is the President and primary stockholder of Capital Gains Incorporated.

Capital Gains specializes in providing investment advice to police and fire pension funds and municipal general funds in the state of Illinois. However, Capital Gains may also provide investment advice to individuals, municipalities, municipal districts, pension funds, corporate pension plans, credit unions, banks, and other public and non-profit entities. Capital Gains manages accounts on either a discretionary or non-discretionary basis. The Company may also be retained by pension funds to provide analysis of their portfolio holdings, develop investment strategy and make recommendations as to specific securities.

Capital Gains works closely with municipal treasurers, finance officers and pension officials in evaluating and recommending appropriate and acceptable investments seeking optimal performance within the investment strategy outlined. Investment strategy is reviewed with the client before implementation. The client can modify the investment strategy and restrict investments in certain securities. Wrap accounts are not typically used by Capital Gains for pension fund clients, however they may be cost beneficial (as opposed to paying commissions for each trade) for individuals and smaller institutional accounts. Wrap accounts may be used for pension fund clients in instances where a high volume of activity is expected (managed stock account, with an active investment strategy) and the use of a Wrap account is expected to be cost beneficial to the client. Capital Gains does not receive commissions or fees from brokerage firms for trades or Wrap accounts.

FEES AND COMPENSATION

Advisory fees are negotiable for both existing and prospective clients. Advisory fees, which may include assumption of custodial costs, range generally from .14 of 1% to 1% (annually) of the total assets in the client's portfolio. The advisory fee is calculated based on the portfolio's net asset value on the last business day of (a) its fiscal year or (b) the previous billing period, as negotiated by the client and adviser.

Fees are calculated and billed on a monthly or quarterly basis. For monthly billings, one twelfth of the annual fee is charged to the client each month and payable on or before the last day of the

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month. For quarterly billings, one-fourth of the annual fee is charged to the client each quarter and payable on or before the last day of the quarterly period. If an account is withdrawn prior to the end of a month or a quarter, the advisory fee will be prorated and charged only for the days during the period that the account was open. These fees cover the management of the client's account and may be in addition to mutual fund advisory fees and expenses for those accounts in which Capital Gains allocates a portion of the client's portfolio to registered investment companies.

Capital Gains also may recommend that a portion of a client's account be managed by a third party investment adviser in situations in which investment in a mutual fund may not be suitable for a client. The selection of an investment adviser is not limited to any particular investment strategy. In all such cases, Capital Gains will not accept discretionary authority to determine which third party investment adviser is to be retained for a client's account. Clients will be required to enter into an advisory agreement with such investment adviser, after receiving Part 2 of that adviser's Form ADV (or equivalent) before the adviser may manage a portion of the client's account.

Capital Gains may charge an advisory fee with respect to any portion of a client's account that is managed by a third party investment adviser. However, in connection with a recommendation of such an adviser, Capital Gains may be paid a referral fee by the adviser pursuant to Rule 206(4)-3 under the Investment Advisers Act of 1940. In cases where a third party investment adviser compensates Capital Gains with a referral fee, Capital Gains will not assess an advisory fee for the portion of a client's assets that are managed by the third party investment adviser.

The referral fee will ordinarily consist of a percentage of the advisory fees that the third party investment adviser receives from the client. The client's fees to the third party investment adviser should not increase as a result of the payment of the referral fee by the investment adviser to Capital Gains. Capital Gains may have a conflict of interest between acting in the client's best interest and securing referral fees from such investment advisers. Clients should be aware that Capital Gains would not receive any referral fees if a portion of a client's account was invested in a mutual fund.

Capital Gains does not receive commissions, 12b-1 fees, sales mark-ups or any other type of compensation from brokerage firms, mutual fund companies, custodian institutions, insurance companies or brokerage firms for trades or Wrap accounts.

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Capital Gains does not charge performance based fees or participate in side-by-side management of accounts.

TYPES OF CLIENTS

Capital Gains has the pleasure of serving twenty-one (21) municipal clients, representing \$189,662,729 under management, as of December 31, 2014. Capital Gains minimum account

size is \$100,000.

Capital Gains specializes in providing investment advice to police and fire pension funds and municipal general funds in the state of Illinois. However, Capital Gains may also provide investment advice to individuals, municipalities, municipal districts, pension funds, corporate pension plans, credit unions, banks, and other public and non-profit entities. Capital Gains manages accounts on either a discretionary or non-discretionary basis. The Company may also be retained by pension funds to provide analysis of their portfolio holdings, develop investment strategy and make recommendations as to specific securities.

In addition to municipal pension plans, Capital Gains provides investment advisory services to municipalities themselves with regard to their corporate or reserve funds and to corporate pension plans, credit unions, banks, library districts, school districts, benevolent associations and other public entities.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Capital Gains uses a combination of technical and fundamental analysis to identify investment opportunities which have the greatest potential to enhance investment returns in your portfolio. Our “flexible” investment strategy is designed to reach the optimum point on the “efficient frontier” based upon the risk reward parameters of each individual client. Capital Gains strives to achieve this objective by implementing “strategic diversification” over many asset classes; diversified fixed income securities plus a variety of equity investments such as small-cap, mid-cap, large-cap, international, emerging markets, inflation hedges, value, growth, etc.

Capital Gains will periodically adjust the asset allocation to each sector based upon changing economic and market conditions. The net effect is to attempt to minimize risk, while striving to maximize investment returns, in a safe and responsible manner.

Capital Gains investment philosophy is consistent for all police and fire pension fund portfolios; however, the strategy is customized to match the investment parameters in their investment policy and the risk profile specified by each client. Therefore, rates of return may vary from one portfolio to another. Also, past performance is not indicative of future returns.

Capital Gains utilizes research provided by Morningstar, Bond Edge, Albridge, Orion, Charles Schwab & Bloomberg to evaluate separate account managers and mutual funds. Capital Gains selects investment managers and mutual funds with a discipline and performance record which demonstrates that the funds are consistent in their approach.

Capital Gains will establish a strategic asset mix within the context of a client's risk tolerance level. The broad asset classes are adjusted based upon changes in the fundamentals of the asset class and changes in the macroeconomic environment. Changes in the asset allocation of each portfolio are achieved by adjusting the weightings of various segments of the capital markets. Capital Gains does not engage in broad market timing strategies between cash, stocks or bonds.

This reallocation may be implemented through the use of mutual funds or exchange traded funds (ETFs). Capital Gains cannot provide the client with an assurance that such strategies will always be profitable.

RISK OF LOSS

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- 1) **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- 2) **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- 3) **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- 4) **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- 5) **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- 6) **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- 7) **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- 8) **Financial Risk:** Excessive borrowing to finance business operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy.

DISCIPLINARY INFORMATION

Neither Capital Gains, Inc. nor its owner, Gary E. Karshna have any disciplinary information to report.

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Neither Capital Gains nor any of its investment professionals have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. Nor do they have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

Capital Gains is an Independent Fee Only advisor and may assist clients in the selection of separate account managers. Capital Gains does not receive any compensation from any manager and managers are not required to pay a fee to be included in any manager database which may be utilized by Capital Gains.

Potential Conflicts of Interest

Mr. Karshna's son, Neil Karshna, a former employee of Capital Gains, is a registered representative with Cetera Advisor Networks, LLC, "Cetera", a full service, independent broker-dealer which provides a broad range of investment services to its clients. Cetera is located at 200 N. Sepulveda Blvd, Suite 1300, El Segundo, CA 90245.

From time to time, Capital Gains may seek bids and offers from Cetera as a dealer or market-maker in certain fixed income investments and may select or recommend Cetera as a broker-dealer to execute transactions for client accounts, including the purchase or sale of shares of common or preferred stock, mutual funds, variable annuities, exchange traded funds (ETF's) and other securities. Capital Gains may have a conflict of interest between seeking best price and execution and providing additional business to Cetera Advisor Networks, LLC. However, Capital Gains will seek to obtain a combination of best price and execution for its clients.

Capital Gains fully discloses to all clients, that Neil Karshna is the son of Gary Karshna, and that Capital Gains would like to include Neil Karshna and Cetera Advisor Networks, LLC as one of the broker/dealers from which Capital Gains may seek bids and offers for fixed income and equity investments. Clients are further advised that Mr. Karshna's son will derive a monetary benefit from any business provided to Cetera Advisor Networks, LLC.

Each client of Capital Gains must approve Neil Karshna and Cetera Advisor Networks, LLC. before any trades are transacted through Neil Karshna and Cetera. If a Capital Gains client does not approve Neil Karshna and Cetera Advisor Networks, LLC, Capital Gains will not transact any business for that particular client through Neil Karshna or Cetera Advisor Networks, LLC.

Capital Gains, pursuant to its fiduciary duty to its clients, addresses any trade error that may occur with respect to a client account so as to place the client in the position in which the client would have been had the error not occurred.

CODE OF ETHICS

Capital Gains has adopted a Code of Ethics related to such matters as insider trading, personal securities trading, gifts and confidentiality of client information. A copy of Capital Gains' Code of Ethics is available upon request.

Capital Gains and its advisory representatives may buy or sell securities identical to those securities recommended to clients. Therefore, Capital Gains and its advisory representatives may have an interest or position in certain securities that are also recommended and bought or sold to clients. Capital Gains and its advisory representatives will not put their interests before a client's interest. Advisory representatives may not trade ahead of their clients or trade in such a way to obtain a better price for themselves than for their clients. Capital Gains is required to maintain a list of all securities holdings for its associated persons. Further, associated persons are prohibited from trading on non-public information or sharing such information. Clients have the right to decline any investment recommendation. Capital Gains and its associated persons are required to conduct their securities and investment advisory business in accordance with all applicable Federal and State securities regulations.

Capital Gains complies with the Insider Trading and Securities Fraud Enforcement Act of 1988 and has adopted a firm policy that outlines insider-trading compliance. The statement has been distributed to all advisory representatives, associated persons, and employees.

Capital Gains has a written policy to help protect nonpublic information including 1) restricting access to files; 2) providing continuing education; 3) restricting and or monitoring trading on securities for which Capital Gains has knowledge of nonpublic information; 4) requiring employees of Capital Gains to conduct their personal trading through specified brokers and reporting transactions promptly to Capital Gains; and 5) monitoring the securities trading of the firm and its employees.

Capital Gains and its employees may buy or sell fixed income securities, shares of individual stocks, mutual funds and exchange-traded funds, for their own accounts that Capital Gains also recommends to clients. Personal securities transactions by an employee may raise a potential conflict of interest when an employee owns or trades in a security that is considered for purchase or sale by a client. Capital Gains has adopted a Code of Ethics that is designed to detect and prevent such conflicts of interest. Mr. Karshna is the only employee of Capital Gains subject to the Code of Ethics, and as such, he is required to maintain records of his personal securities transactions, comply with all applicable federal securities laws, and certify that he has read and understood Capital Gains' Code of Ethics.

Clients may obtain a copy of Capital Gains' Code of Ethics at any time upon request.

BROKERAGE PRACTICES

Broker/Dealer Selection Process

For its discretionary clients, Capital Gains generally has authority to supervise and direct the investments of the client without prior consultation with the client. Pursuant to this discretionary authority, Capital Gains will normally determine which securities are bought and sold for the account, the total amount of such purchases and sales, the brokers or dealers through which transactions will be executed, and the commission rates paid to effect the transactions. Capital Gains' authority may be subject to conditions imposed by the client, for example, where the client restricts or prohibits transactions in certain types of securities or directs that transactions be effected through specific brokers or dealers.

For non-discretionary client accounts, Capital Gains suggests specific brokers or dealers for securities transactions. It may also negotiate the commission rates paid by its clients to effect portfolio transactions. Although Capital Gains makes recommendations as to the use of specific brokers or dealers based on the considerations described below, the decision as to which broker or dealer to use is made by the client. Likewise the decision to buy and sell securities recommended by Capital Gains is ultimately made by the client.

The adviser's selection or recommendation of a broker or dealer is limited by the client's investment objectives, the type of instruments (consisting mainly of U.S. government backed securities) employed for the account and any special needs or considerations indicated by the client. In selecting or recommending brokers or dealers, Capital Gains Incorporated's overriding objective is to seek for the client the best combination of price and execution. The best net price, giving effect to brokerage commissions, if any, and other transaction costs are normally important factors, but a number of other judgmental factors may also be considered. These factors include the financial strength, stability and integrity of the broker, the size of the transaction and the broker's ability to affect a large transaction; the timing of transactions and the execution, settlement and clearance capabilities of the broker.

Soft Dollar Practices

Recognizing the value of these factors, Capital Gains may select or recommend a broker whose brokerage commissions may exceed that which another broker may be charging for the same transaction. Where more than one broker is believed to be capable of providing the best combination of price and execution, the adviser may select a broker which furnishes it with research and other services such as on-line reports, statistical calculations, financial publications and market reports. Capital Gains Incorporated has verbal agreements with several brokerage firms, whereby rate of return information and modern portfolio statistics (alpha, beta, duration, standard deviation, Sharpe ratio or average maturity) are provided to Capital Gains Incorporated on a monthly basis or upon request.

To the extent that Capital Gains uses client transactions to obtain products or services that it could otherwise purchase for cash, Capital Gains may have an incentive to place a greater

volume of transactions or pay higher commissions than would otherwise be the case. Capital Gains does not attempt to allocate the relative costs or benefits of such services to or among specific clients because it believes that the research as a whole assists it in its overall investment activities. Any research or statistical data received by Capital Gains may be used in servicing any or all of the firm's clients including those accounts which direct Capital Gains to a particular broker from whom Capital Gains receives no research services. Such services may not necessarily be used in conjunction with a particular account or the one affecting transactions through the broker or dealer providing the research or statistical data. Accounts which direct brokerage therefore may receive a disproportionate benefit over accounts which pay for such services through soft dollar transactions directed by Capital Gains Incorporated.

Trade Aggregation

Capital Gains often serves as investment adviser for multiple accounts having the same or similar investment objectives and strategies and holding many of the same securities. Capital Gains may, but is not required to, aggregate for execution as a single transaction orders for the purchase or sale of a particular security for the accounts of several clients in order to seek a more advantageous net price or more efficient execution.

Before placing an aggregated trade, Capital Gains generally establishes a target allocation of securities purchased or sold among the accounts of participating clients.

If Capital Gains is unable to complete a block trade, then it will allocate, based upon these relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a de minimis allocation in one or more accounts, then Capital Gains may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in case where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Client-Directed Brokerage Arrangements

Capital Gains may accept direction from a client to effect portfolio transactions through a particular broker or dealer. These clients should know that Capital Gains' ability to negotiate commission rates for such clients is virtually eliminated nor is Capital Gains in a position to evaluate additional services that may be provided to such clients by those brokers or dealers.

A client who chooses to designate a particular broker or dealer should consider whether such a designation may result in certain costs or disadvantages to the client, either because the client may pay higher commissions on some transactions that might otherwise be attainable by Capital Gains, or may receive less favorable execution of some transactions, or both. In determining whether to direct its brokerage to a particular broker or dealer in recognition of custodial or other services, the client may wish to compare the possible costs or disadvantages of such an arrangement with the value of the custodial or other services provided.

A client who has restricted Capital Gains to a particular broker or dealer generally will be unable to participate in an aggregated order. Also, a client who has restricted Capital Gains from using a particular broker or dealer will be unable to participate in an aggregated order placed with that broker or dealer.

Capital Gains receives periodic reports containing research and analytical data from various brokerage firms. Capital Gains also may place client trades with those firms. Although it seeks to obtain best execution, because of the benefit of the reports received from those firms, Capital Gains may have an incentive to place a greater volume of transactions or pay higher commissions than otherwise would be the case.

Trade Errors

If there is a loss in a client's account due to a Capital Gains trade error, Capital Gains will reimburse the client for any loss. If there is a gain due to a Capital Gains trade the client retains the gain but may retain it on its books as a future debit to cover trade error losses.

REVIEW OF ACCOUNTS

Managed accounts receive continuous supervisory management: Generally accounts are reviewed monthly. Third party managed accounts are also monitored on a monthly basis.

Clients may request more frequent reviews and may establish specific criteria that would cause a review to take place. Generally, Capital Gains personnel will monitor the macroeconomic environment, the capital markets, and changes in the management and structure of mutual fund companies or separate account manager organizations in which client assets are invested. Clients should notify their Capital Gains Representative promptly of any changes to the client's financial goals, objectives or financial situation which may require the Capital Gains Representative to review the client's portfolio and make recommendations for changes.

Regular Reports: Clients will be provided with account statements reflecting the account holdings and transactions occurring in the clients account on a monthly basis. Clients receiving continuous supervisory management services will be provided quarterly reports from Capital Gains reflecting the performance of the clients account. Capital Gains will prepare and distribute monthly statements at the request of the client. Capital Gains urges its clients to compare the transactions and values of the custodian statements to those prepared by Capital Gains for accuracy.

CLIENT REFERRALS AND OTHER COMPENSATION

Capital Gains has not paid referral fees to persons not affiliated with Capital Gains who introduce advisory business to it. However, Capital Gains retains the option of paying such fees pursuant to the solicitor's rule, SEC Rule 206(4)-3 and "Pay to Play" restrictions Rule 206(4)-5 under the Investment Advisers Act of 1940, and will ordinarily consist of a percentage of the advisory fees paid to Capital Gains by the referred client. The client's fees to Capital Gains are not increased as a result of the payment by Capital Gains to the solicitor.

Capital Gains may receive client referrals from broker dealers, to whom Capital Gains may direct brokerage executions or from whom it receives research. Capital Gains may have a conflict of interest between its duty to obtain a combination of best price and execution for its clients and securing additional business from a particular broker/dealer.

CUSTODY

Capital Gains does not have custody of client funds. The assets of each client are registered solely in the name of the client and held in third party safekeeping and custody. The third party custodian sends a monthly statement detailing the clients' holdings, transactions and values for that period. Clients should carefully review those statements. Capital Gains prepares monthly and/or quarterly reports or statements for clients. Capital Gains urges its clients to compare the account statements they receive from the qualified custodian with those they receive from Capital Gains.

INVESTMENT DISCRETION

Clients typically grant Capital Gains authorization to manage the client's account on a discretionary basis. The client will grant such authority to Capital Gains by execution of the client agreement and a brokerage account application. The client may terminate discretionary authorization at any time upon receipt of written notice by Capital Gains. Additionally, the client may set parameters with respect to when the account should be rebalanced and set trading restrictions or limitations.

VOTING OF PROXIES

For all client accounts which are subject to the Employee Retirement Income Security Act ("ERISA"), Capital Gains will vote all proxies for securities and exercise voting rights pertaining to investments in client's account unless the client informs Capital Gains in writing (such as in the investment management agreement) that the client retains voting discretion for investments in the client's account.

For any client which is not subject to ERISA, Capital Gains will not vote any proxies for securities or exercise any voting rights pertaining to investments in the client's account unless the client directs Capital Gains to do so in writing. It is then the client's responsibility to vote any

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proxies for securities or exercise all voting rights pertaining to investments in his or her account. Ordinarily, client's broker-dealer or custodian will forward proxies pertaining to investments in the client's account to the client. The Client should contact his or her broker-dealer or custodian if he or she does not receive proxies or other mailings pertaining to investments in the account.

For any client account for which Capital Gains does not vote proxies or exercise any voting rights, at client's request, Capital Gains will advise client as to the exercise of any right or power to vote (which shall exclusively reside with the client) that may exist in connection with securities or investments held in the client's account.

All proxies for client securities for which Capital Gains has authority to vote shall be voted in a manner considered to be in the best interests of Capital Gains' clients, without any regard to Capital Gains. Capital Gains shall examine each proposal and vote against the proposal, if, in its judgment, approval or adoption of the proposal would be expected to impact adversely the current or potential market value of the issuer's securities. In addition, Capital Gains shall examine each proposal and vote the securities held on behalf of a client against the proposal, if, in its judgment, the proposal would be expected to affect adversely the best interest of the client. Based on the nature of the investments that Capital Gains makes for its client accounts, Capital Gains does not expect any material conflicts of interest to arise. However, Capital Gains will determine whether any material conflict of interest is present with each proposal on which it has discretion to vote.

Clients should be aware that, unless directed by a client, Capital Gains will not act for the client in any legal proceedings, including bankruptcies or class actions, involving securities held or previously held by the client's account.

Capital Gains is not responsible for voting proxies for client securities held in the portion of the client's account managed by a third party investment adviser.

FINANCIAL INFORMATION

All fees are billed monthly or quarterly and in arrears. Capital Gains does not solicit prepayment. Neither Capital Gains nor its principals, has any financial information to report.