

The Stoneharbor Group, LLC
433 Paseo de Peralta
Santa Fe, New Mexico 87501

Phone: 505-984-2000
Fax: 505-984-2003

www.stoneharborgroup.com

Firm Brochure

June 2012

This brochure provides information about the qualifications and business practices of The Stoneharbor Group, LLC. If you have any questions about the contents of this brochure, please contact Stewart Gardner, President at: 1-505-984-2000. 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 The Stoneharbor Group is also available on the SEC's website at:

www.adviserinfo.sec.gov.

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Material Changes

The information on this page discloses material changes at The Stoneharbor Group since the last brochure amendment in March, 2012.

Change in Registration:

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) requires Investment Advisors with assets under management of less than \$100 million be directly registered with and supervised by the states in which they conduct business. Previously, because The Stoneharbor Group has assets under management of between \$25 and \$100 million it was registered with, and supervised by, the Securities and Exchange Commission (“SEC”). On June 13, 2012, The Stoneharbor Group initiated its withdrawal from SEC registration and applied to the State of New Mexico to become registered with the State to conform to the requirements of the Dodd-Frank Act.

The Company

The Stoneharbor Group, LLC ("Stoneharbor") was established in 1997 as a Massachusetts Limited Liability Company. The majority owner is Stewart A. Gardner.

Services

The Stoneharbor Group serves as an investment manager to high net worth individuals and families and also serves as investment manager to the Gryphon Opportunity Fund, Limited Partnership. Stoneharbor also serves as investment advisor to other firms providing investment advisory services and investment funds.

Services to High Net Worth Individuals and Families

Our primary fiduciary goal when managing portfolios for individuals is preservation of capital. Our secondary goal is to increase capital.

Our primary investment mission is to earn positive returns on client portfolios. Our secondary investment goal is to avoid portfolio losses.

All portfolios are individually managed with the specific needs and objectives of each client in mind.

For each client, we first determine the optimal mix of assets that we feel will best meet the income and appreciation objectives of the client in conjunction with their individual tolerance for risk. We choose from the following types of investments when implementing an investment program:

- Publicly traded stocks and bonds
- Alternative investment strategies, which may include:
 - Private investment partnerships in a fund of funds structure
 - Private Equities
 - Pooled Real Estate Investment opportunities
- Specialized sub-advisers to augment our proprietary areas of expertise

Our clients have chosen us for our expertise in investment management. All portfolios are managed on a discretionary basis, meaning that we will choose the specific investments for your account based on the overall objectives we have established in consultation with you. The account agreement you sign with us confirms this arrangement.

Clients have the right to request that we do not invest in specific types of securities, or in industries or individual companies with which they are not comfortable.

Services to Investment Partnerships

The Stoneharbor Group is the general partner of, and the investment manager for, the Gryphon Opportunity Fund. It may assume similar roles with other pooled investment vehicles in the future.

The Gryphon Opportunity fund is a private investment partnership that invests in value based hedge funds, other pooled investment partnerships, private equity, and public securities. While the individual hedge funds

held by Gryphon are managed by the hedge fund sponsors, Stoneharbor is responsible for selecting the hedge funds in which Gryphon invests.

Advisory Services

In addition to the managed account services described above, Stoneharbor has been retained by Spinnaker Trust , (“Spinnaker”) a non-depository trust company located in Portland, Maine, to provide advisory services to certain of its accounts. As an investment advisor to Spinnaker, Stoneharbor may review specific accounts and make asset allocation recommendations or recommend that specific securities be purchased or sold in the individual accounts.

Assets Under Management

As of May 31, 2012 Stoneharbor’s discretionary assets under management were:

Individual Accounts:	\$59.8 million
Pooled Investment Partnerships:	<u>\$21.4 million</u>
Total Assets under Management:	\$81.2 million

Fees and Compensation

Fees for Individually Managed Accounts

Management fees are assessed according to the following schedule:

Assets under Management	Annual Percentage Rate
First \$5,000,000	1.0%
Next \$5,000,000	.75%
Balance over \$10,000,000	.5%

Fees are calculated at a rate equal to ¼ of the annual rate and are collected quarterly in advance.

If a client terminates his or her relationship with The Stoneharbor Group, fees paid in advance will be automatically refunded. The amount of the refund will be equal to the pre-paid fee for the quarter, multiplied by a ratio equal to the number of remaining days in the quarter, divided by the total days in the quarter.

While it is our preference to deduct fees directly from the managed account, arrangements can be made for fees to be invoiced.

In some circumstances, fees may be negotiated when certain assets held in the account are not subject to active management.

In addition to the management fees detailed above, clients pay separate fees for custody and brokerage transaction costs. These fees are paid directly to the service providers. Please see page 9 for a discussion of our brokerage practices.

Investment Partnership Fees

The Gryphon Opportunity Fund, managed by The Stoneharbor Group, pays an annual management fee equal to 1% of assets under management. Fees are collected quarterly in arrears. Management fees paid by investment partnerships are not negotiable. Stoneharbor may set up additional partnerships to manage.

Performance Based Fees

Depending on the partnership agreement, a partnership may also pay an incentive share of profits to the general partner, Stoneharbor. Incentive fees are in addition to the 1% investment management fee. Stoneharbor clients who invest in any partnerships also managed by Stoneharbor (such as Gryphon Opportunity Fund) do not pay a fee on the Gryphon asset held in their management account.

The Stoneharbor Group may earn performance fees through management of the Gryphon Opportunity Fund. It also earns asset-based fees by managing portfolios for individuals. This is a potential conflict of interest because portfolio managers could have an incentive to favor accounts that earn performance fees over those that don't. This potential conflict is mitigated by a combination of the following factors:

- The Stoneharbor Group is a small firm with high staff to client ratios, which ensures that close attention is paid to all accounts
- Stoneharbor reviews all accounts frequently and thoroughly
- The company's compliance department reviews each portfolio to make sure each is managed against its stated account objectives, and to ensure that trades are allocated fairly across accounts

Types of Clients

The Stoneharbor Group provides investment management services to high net worth individuals and families, and their related trust and retirement accounts. It also serves as investment manager to pooled investment partnerships and as investment advisor to a private investment fund and, separately, to a non-depository trust company.

Methods of Analysis, Investment Strategies and Risk of Loss

Portfolio Management for Individuals

Portfolios are built around a core foundation of traditional, publicly traded securities. Non-bond income strategies are also used to enhance performance and reduce portfolio volatility. When appropriate, alternative investments may comprise a portion of a client's portfolio. It is also possible that sub-advisors may be used to implement specific strategies.

Stoneharbor Group Portfolio Managers use the following procedures to select investments and manage client accounts:

Direct Investments

Portfolio composition is designed to (at a minimum) preserve capital, with a goal of increasing capital through income accumulation and capital appreciation. Most portfolios will hold positions in equity income securities that are selected based on above average dividend and distribution streams and select US and international institutional money market funds. Holdings may also include a sub-advised Value Portfolio which seeks long term appreciation by selecting publicly traded stocks with robust cash flows and lower than average price-to-earnings and price-to-book ratios. Where appropriate, portfolios will also have allocations to Pooled Investment Vehicles.

Stoneharbor invests in securities based on their own merits and strategic fit. No attempt is made to mimic any index, and sectors may be over-weighted based on perceived opportunities within the sector(s). Investments may be made in domestic or international securities.

Allocations to alternative investment strategies for eligible high net worth clients may include investments in real estate partnerships, investments in the Stoneharbor-advised Gryphon Opportunity Fund, and similar vehicles. As appropriate, Stoneharbor manages entire accounts or portions of accounts according to a proprietary strategy known as the Stoneharbor Strategic Income strategy ("SSI"). SSI is a global value based equity income strategy. The strategy is an actively managed income approach that invests primarily in liquid securities across diversified asset classes that may include common stocks, preferred stocks, convertible securities, real estate investment trusts, master limited partnerships, exchange traded funds, and bonds. The strategy focuses on capital preservation and generating absolute returns driven by growing distributions. Investments are selected without regard to market capitalization.

Portfolio Management of Pooled Investment Partnerships – The Gryphon Opportunity Fund

Direct investments in the Gryphon Opportunity Fund are selected according to several criteria. First, the manager of a Pooled Investment Vehicle being considered as an investment must operate in a professional and ethical manner the General Partner believes is of the highest standard. Second, the investment should have a superior performance record over time. Third, the manager's investment philosophy must be compatible with that of Stoneharbor, i.e., value and/or opportunistic investing. Fourth, the assets of the Pooled Investment Vehicle must currently be deemed by the General Partner to fit within the Partnership's current overall investment strategy.

No single investment in Gryphon will exceed forty percent (40%) of the assets of the Partnership at the time of purchase. Pooled Investment Vehicles that are hedge funds can be expected to have significant portfolio turnover, the expense of which will be borne indirectly by the Limited Partners.

Pooled Investment Vehicles in which the Gryphon Opportunity Fund invests may themselves invest in a broad range of securities and other assets of all types, including, without limitation, common stock, preferred and convertible preferred stock and other equity securities, foreign equity securities, fixed income securities, private or governmental (including Federal, state, municipal or other governmental entities), corporate bonds, notes, loans, and debentures (whether secured or unsecured), real estate, options, futures, other derivatives, warrants, rights, commodities and commodities futures and any other securities or assets of any

kind. Certain of the Investments held in Gryphon may be venture capital or leveraged buyout funds (and may therefore own a controlling Interest in the companies in which they invest) or real estate investment funds.

Cash Management

All excess cash in client accounts is swept to an interest-bearing, institutional money market fund on a daily basis.

Risk of Loss

Investing in securities involves risk of loss that clients should be prepared to bear. Any investment may decrease in value at any time, and the value of accounts managed by us may decline. Although we have a strong history of positive performance, there is no guarantee that future performance of any individual investment or a client's portfolio as a whole will be positive.

Some of the risks inherent in publicly traded stocks and bonds include price deterioration due to poor economic news or due to company-specific news or performance. In addition to these risks, foreign exchange rate changes may negatively impact investment performance of international securities positions.

Risks associated with the Stoneharbor Strategic Income strategy in addition to individual company, sector, or general market risk may include currency conversion risk when investing in stocks of U.S. companies conducting a significant amount of business abroad or in foreign companies whose revenues are denominated in the currencies of their home countries. Another potential risk can be one associated with a lack of liquidity. Liquidity risk can occur when investing in very small publicly traded companies as the number of shares traded on any given day may not allow full entry into or exit from an individual stock position in one trade or even in several trades over the course of a single trading day. When conducting transactions in thinly traded stocks there is the risk that our own trading can impact the price of the stock, requiring us to buy or sell over the course of several days in order to accumulate a full position or disgorge a position in its entirety.

Alternative investment strategies, such as that of the Gryphon Opportunity Fund, typically bear risks that are higher than those of publicly traded stocks and bonds. One reason for the enhanced risk is that these assets are not liquid (not capable of being converted to cash within a matter of days).

Other assets will bear their own unique risks. For example, real estate may decline as a result of the current credit crisis. Private equity firms may not be able to receive sufficient capital to continue operating, or hedge fund strategies may not be successful.

Disciplinary Information

Neither Stoneharbor nor any of its associated persons have been involved in any disciplinary actions.

Other Financial Industry Activities and Affiliations

Neither the Stoneharbor Group nor any of its associated persons have any other financial industry activities or affiliations to disclose.

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

The Firm is dedicated to providing effective and proper professional investment management services to its clients and depends upon a high level of public and client confidence for its success. Stoneharbor Group has adopted a Code of Ethics that details our expectation that all of our principals and employees will comply with all securities laws, avoid potential conflicts of interest, always act in the best interest of our clients, and will conduct themselves in accordance with the highest professional standards. If you are a client or prospective client of The Stoneharbor Group, you may request a copy of our Code of Ethics at any time.

The President or other principals often invest in the same securities recommended to Stoneharbor clients. This can create a conflict of interest if they buy or sell their holdings before effecting the same transactions for the accounts of their clients. In the case of purchases when a stock's price is rising, (or sales when the stock price is falling), they could potentially purchase the shares at a lower cost (or sell at a higher price) than what they would be able to obtain for their clients. This practice is known in the industry as "trading ahead" and is strictly prohibited by The Stoneharbor Group.

To ensure that this does not happen, purchases and sales are allocated pro-rata across all accounts. As a further assurance that principals are not trading ahead of clients, all Stoneharbor employees are required to disclose all personal trading activity to the compliance department for review on a quarterly basis.

Stoneharbor may recommend investment in pooled investment partnerships in which it has a material financial interest because its President also is invested in the partnership and/or because The Stoneharbor Group serves as General Partner to the partnership. This could create a conflict of interest if The Stoneharbor Group charged a management fee at both the partnership level and on the partnership asset held in client accounts. However, because Stoneharbor does not charge clients a management fee on the pooled investment partnership it also manages, this potential conflict is eliminated.

Clients are not solicited for investment in any investment partnerships, whether managed by Stoneharbor or not, unless they meet strict financial criteria and can bear the risks associated with this type of investment.

Brokerage Practices

Broker Selection

We select brokers based on the following:

- Ability to execute trades in accordance with our instructions and in a timely manner
- Ability to trade, or provide access to brokers who can trade, on particular exchanges in home country currency (for example, the Toronto Exchange when trading Canadian securities)
- Commission prices
- Quality of the brokerage firm's research
- Ability to settle trades (deliver the shares) in a timely manner

In order to determine the reasonableness of a broker's commissions, we periodically "shop" for other broker relationships to compare their rates and services, and establish new relationships when deemed appropriate.

The Stoneharbor Group has recently selected Esposito Securities, LLC as its Prime Broker. Esposito provides all the services the firm requires in a brokerage firm. Commission rates are competitive at \$.03 - \$.06/share, depending on whether Esposito executes the trade directly or needs to use another broker to execute a trade according to our instructions. Execution is better than that of prior brokers.

A portion of the commission dollars paid to Esposito (1/2 of 1 cent per share) are set aside by Esposito in an account to pay for research purchased by The Stoneharbor Group – a practice known as “soft dollars” in the industry. Funds in this soft dollar account will be used to purchase third party research that benefits all of our clients. While this sort of soft dollar arrangement is beneficial to us because we do not have to pay for the portion of research services paid for by the broker from the soft dollar account, this type of arrangement could incent us to select brokers based on their willingness to provide a soft dollar account. However, quality of service in trading and execution is our number one priority, and we will not maintain brokerage relationships with brokers who don’t fulfill our expectations for execution and settlement capability.

Directed Brokerage

Unless a client requests that we execute trades through a particular broker, we will select the broker to be used for any given trade.

Clients may request we use a specific broker to execute trades in their account. Unless there is a concern on our part as to the broker’s qualifications or abilities, we will accommodate the client’s request. When doing so however, since we will be trading for a single account, and not aggregating those shares with those of other clients, the commission charge per share will most likely be higher than that of the larger trade. We typically aggregate trades for multiple client accounts to reduce commission costs, but also to ensure that all clients are fairly treated by obtaining the same stock prices for all clients buying/selling the same security.

Review of Accounts

Account Review Schedule

All securities held in client accounts are reviewed according to the following schedule:

- Publicly traded securities: daily
- Private equities: semi-annually
- Pooled Investment Vehicles: monthly

All client accounts are formally reviewed on a quarterly basis by the firm’s President or Senior Portfolio Manager to ensure that asset allocation decisions have been appropriately implemented in individual client accounts.

Reports

Clients receive a quarterly report from our custodian showing all transaction in their accounts for the preceding quarter, as well as a listing of all holdings in their account with both cost and market values shown. Clients are strongly encouraged to carefully review their statements and call us with any questions.

Statements can be requested on a monthly basis, and are also available on-line through a secure website provided by the custodian.

Clients invested in Gryphon Opportunity Fund also receive a monthly newsletter discussing fund performance in both narrative and graphical presentation.

Client Referrals and Other Compensation

The Stoneharbor Group does not compensate any person or entity for referring business to the firm.

Custody

Spinnaker Trust is the recommended custodian for Stoneharbor clients. Separate custody fees are charged by Spinnaker for its services. Neither Mr. Gardner nor The Stoneharbor Group receives any payment for recommending Spinnaker as custodian. Spinnaker Trust provides the following custodial services to Stoneharbor clients:

Safekeeping of Assets

Publicly traded stocks and bonds are held directly by Northern Trust Company. Securities held in paper form, such as stock certificates or subscription documents evidencing ownership in pooled investment partnerships are held in Spinnaker's vault at Bangor Savings Bank in Portland, Maine.

Recordkeeping

Spinnaker records all activities related to client assets such as cash disbursements, stock splits, securities purchases and sales, and collects all dividend and interest payments.

Account Valuation

The prices of all publicly traded securities held in client accounts are updated by Spinnaker on a nightly basis. The value of the Gryphon Opportunity Fund is updated monthly. All other securities' prices are updated on either a quarterly or annual basis.

Investment Discretion

The Investment Management Agreement our clients sign gives us discretionary authority over their assets. This means that we will decide, without consulting you in advance, what securities to buy or sell for your account, and also decide when those purchases and sales will be made. Our Investment Management Agreement gives clients the ability to request that we not invest in specific industries or companies.

Voting of Client Securities

Clients may choose whether they would like us to vote their shares in corporate matters, or if they would like to retain that right.

Our custodian votes the proxies for those clients who do not wish to vote their own shares. We review the Custodian's proxy voting policies on an annual basis to ensure that we agree that their policies best represent the economic interests of our clients, and you may request a copy of these proxy voting policies at any time. To aid them in their voting, the Custodian subscribes to The Corporate Library's Board Analyst database and Glass Lewis' proxy advisory service to assist it in its voting decisions.

State-Registered Advisers

As a state-registered advisor, we are required to provide you with the following additional information:

Other Business Activities

The Stoneharbor Group does not engage in any business activities other than the investment management activities described in this brochure.

Performance Based Fees

As disclosed on page 6 of this brochure, The Stoneharbor Group may earn performance-based fees as the General Partner of the Gryphon Opportunity Fund ("Fund"). Performance-based compensation may create an incentive to recommend investments that may carry a higher degree of risk to its clients. The performance-based fees on the Gryphon Opportunity Fund are calculated as follows, depending on whether the investment was owned in the partner's Basic Capital Account or as a Designated Investment in the partner's Designated Capital Account.

If the investment was held in the Designated Capital Account, performance fees are calculated as follows:

"Upon the sale (including the deemed sale) of a Designated Investment, the General Partner will receive a Profit Share Allocation equal to 20% of the excess (if any) of the amount by which the Partnership's realized amounts (net of any expenses (accrued or otherwise) from the Designated Investment) exceed its Carrying Value. The calculation of the Profit Share Allocation with respect to a Designated Investment will not take into account any profits, losses or Performance Loss Carryforward attributable to a Limited Partner's Basic Capital Account or any other Designated Investment of such Limited Partner.

(By way of clarification, the calculation of the Profit Share Allocation or Performance Loss Carryforward with respect to a Limited Partner's Basic Capital Account will not take into account any profits or losses from Designated Investments and is not subject to reduction for, or reduce, current or prior year Performance Loss Carryforward amounts.) The amount realized by the Partnership from the sale (or deemed sale) of a Designated Investment net of any expenses (accrued or otherwise) and

net of the Profit Share Allocation, will be allocated to the Partners' Basic Capital Accounts in accordance with each Partner's participation in the Designated Investment."¹

Performance based fees would be calculated with regard to a partner's Basic Capital Account according to the following formula:

"If in any fiscal year ("Current Year"), the Net Profits allocated to the Basic Capital Account of a Limited Partnerexceed the Net Losses so allocated to such Limited Partner's Basic Capital Account by an amount in excess of the hypothetical interest that would have accrued on the balance in the Limited Partner's Basic Capital Account if it had been invested at the Target Rate² for such Current Year, there shall be a reallocation to the Basic Capital Account of the General Partner as of the end of the Current Year of an amount equal to 5% of such excess (the "Profit Share Allocation")..."

Company or Management Involvement in Arbitration

Neither the Stoneharbor Group nor any of its management personnel have been found liable in an arbitration claim alleging damages in excess of \$2,500 or in a civil, self-regulatory organization or administrative proceeding involving any of the following:

- (a) an investment or an *investment-related* business or activity;
- (b) fraud, false statement(s), or omissions;
- (c) theft, embezzlement, or other wrongful taking of property;
- (d) bribery, forgery, counterfeiting, or extortion; or
- (e) dishonest, unfair, or unethical practices.

Relationships with Issuers of Securities

Neither the Stoneharbor Group nor any of its management persons have relationships or arrangements with any issuers of securities.

Additional Information

Contact Information

Please contact us if you would like copies of any of the following documents:

- Privacy Policy
- Proxy Voting Policy
- Code of Ethics

¹ Third Revised and Restated Agreement of Limited Partnership of Gryphon Opportunity Fund, Limited Partnership

² 1-year Treasury Bill rate

If you have any questions about our services generally, or your account specifically, please contact Stewart Gardner at 1.505.984.2000, or via e-mail at: sag@stoneharborgroup.com.

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Investment Professionals

Stewart A. Gardner

Curt J. Anderson, CFA

Investment Professionals

The Stoneharbor Group employs a team approach to portfolio management. Therefore, each of the Firm's President, Stewart Gardner, and its Senior Portfolio Manager, Curt Anderson, are equally familiar with the investment goals and unique needs of each and every one of the Firm's clients. The educational backgrounds and business backgrounds of both Mr. Gardner and Mr. Anderson are presented below:

Stewart A. Gardner

Principal and Founder

Mr. Gardner is a graduate of Le Rosey School in Switzerland. He received his Bachelor's degree from Harvard University with Honors in Government and a MBA in International Business and Finance from Columbia University's School of Business.

Mr. Gardner began investing during his college years when he was first exposed to the stock market through his family's advisory firm, Gardner & Preston Moss of Boston, and has served as trustee of numerous family trusts for more than twenty-five years. In 1981 he launched the family limited partnership predecessor to the Gryphon Opportunity Fund to specifically exploit investment opportunities ignored by traditional investment advisory firms. In 1997 he founded The Stoneharbor Group, LLC as a response to his experience with the limitations of standard portfolio management practiced at many banks and investment houses.

Mr. Gardner is Chairman of the Investment Committee, with specific responsibility for determining overall investment strategy and identifying alternative investment opportunities for the firm's clients.

Curtis J. Anderson, CFA

Senior Portfolio Manager and member of the Investment Committee

Mr. Anderson earned both an MBA and a BS in Finance from the University of Utah, and was awarded the Chartered Financial Analyst ("CFA") designation in 1990. The CFA Program is a globally recognized, graduate level curriculum that provides charter holders with a strong foundation in the real-world investment analysis and portfolio management skills needed in today's investment industry. **To earn the CFA charter**, candidates must have four years of qualified investment work experience, [become a member of CFA Institute](#), pledge to adhere to the CFA Institute [Code of Ethics and Standards of Professional Conduct](#) on an annual basis, apply for membership to a [local CFA member society](#), and

complete the CFA Program. The Program consists of three levels of studies, and in order to earn the CFA designation, candidates must pass a six-hour exam at the end of each level.

Mr. Anderson has more than 20 years experience in investment analysis and portfolio management. Prior to joining The Stoneharbor Group, he was the Founder and Executive Manager of Brahma Capital Management, a regional registered investment advisor that specialized in managing the assets of high net worth individuals. Prior to that position he was CEO, Partner and Director for American Medibanc, a private equity investment that was sold to a large private equity firm after experiencing significant growth in business and profits. Earlier in his career he managed a balanced mutual fund and sub-managed accounts for Founders Asset Management and was responsible for \$1.0 billion of managed assets. He also held the position of Senior Vice President, Director of Research and was a member of the Board of Directors for First Security Investment Management. In that role he personally managed over \$1.5 billion in assets and oversaw total firm assets under management of \$6 billion.

Mr. Anderson participates directly in shaping overall investment strategy. Together with Mr. Gardner he designs and builds client portfolios according to an Investment Policy Statement written for each client. He is responsible for ensuring that all client portfolios are invested according to their individualized investment objectives.

Supervision of Investment Advisors

As the President and owner of The Stoneharbor Group, as well as its Chief Compliance Officer, Stewart Gardner is responsible for supervising Mr. Anderson and his management of client portfolios. Should a client ever have a concern or a complaint about the management of their account, they are invited to contact Mr. Gardner at the Firm's office at 505-984-2000.