

# **The Blue Shores *Capital* Wrap-Fee Disclosure Brochure**



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*Form ADV, Part 2A – Appendix 1*

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This Wrap-Fee Program Disclosure Brochure provides information about the qualifications and business practices of Blue Shores *Capital*, a Division of Independent Portfolio Consultants, Inc. Managed Assets Program that you should consider before becoming a client. If you have any questions about the contents of this brochure, please contact **Independent Portfolio Consultants, Inc. (“IPC”)** at the address listed above or call us at **(800) 346-4570** or send us an e-mail at **[customerservice@ipcanswers.com](mailto:customerservice@ipcanswers.com)**.. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

As an SEC Registered Investment Advisor, additional information is also available about IPC on the SEC’s website at **[www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)**. However, registration does not imply a certain level of skill or training.

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## 2. Summary of Material Changes

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The following are summaries of material changes to the Blue Shores *Capital* (“BSC”) Form ADV Part 2A-Appendix 1 Disclosure Brochure that have occurred since the March, 2011 version that was previously provided.

### **ITEM 6 – Portfolio Manager Selection and Evaluation**

In this section, under Methods of Analysis, Investment Strategies and Risk of Loss, additional information was added to describe other potential risks inherent in the investment of securities that make up various investment strategies.

This Brochure or any other IPC Brochure may be downloaded from the SEC Website as indicated above or you may contact IPC at 561-912-1040 or [customerservice@ipcanswers.com](mailto:customerservice@ipcanswers.com) to obtain a Brochure.

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## 4. Services, Fees and Compensation

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Blue Shores *Capital* (“BSC”) was established as a proprietary investment management division of Independent Portfolio Consultants Inc. (“IPC”) in 2007. BSC seeks to offer a value-added investment management service utilizing an active management approach that BSC believes is not widely offered in the investment industry.

IPC specializes in providing investment advisory, consulting and investment management services through its managed accounts programs to independent Wealth Management Companies and their clients. The Wealth Management Companies that IPC services include nationally recognized insurance companies, registered investment advisers, brokerage firms, and financial/estate planning organizations. IPC is independent and employee owned, with corporate headquarters in Boca Raton, Florida, and a history that dates back to 1987. The Firm has achieved a solid history of supporting wrap-fee programs by employing a highly skilled group of experienced professionals, supported by an exceptional client service team. Individuals associated with IPC that provide these services are licensed, qualified and authorized to provide advisory services as investment adviser representatives. Throughout this Brochure, these individuals will be referred to as “IPC Consultants.”

### **BLUE SHORES CAPITAL ADVISORY SERVICES**

Blue Shores *Capital* (“BSC”) provides discretionary investment advisory services to Clients using a multiple capitalization core equity investment strategy in either a U.S. Domestic or Global investment mandate. BSC makes these investment mandates available using equity and balanced portfolios.

BSC believes that the greatest opportunity for an active investment manager to add value, versus the passive benchmark alternative, is to generally operate a portfolio free of capitalization restrictions. This is accomplished by allowing the best investment opportunities to be included in the portfolio regardless of market capitalization. Additionally, BSC believes a core portfolio that is created by combining multiple approaches is the best structure for a style neutral portfolio. Portfolio holdings are limited to approximately 75 positions in order to meaningfully differentiate the portfolio from the broader equity market. The equity portfolio is diversified by market capitalization, economic sector and investment style.

Paramount to BSC’s investment philosophy is the belief that equity markets are very efficient, but not perfectly efficient, particularly over the short-term. Furthermore, it is BSC’s belief that market prices of publicly traded common stocks reflect both rational and irrational factors. Therefore, while fundamental analysis is the primary investment discipline used, technical analysis is also employed in the investment decision-making process. At times, the core equity strategy has meaningful exposure to mid and small capitalization stocks that have less coverage by analysts than the more well-known companies found in the Standard & Poors 500 Stock Index.

## **Domestic Strategy**

The growth portion of the domestic core equity strategy seeks to purchase primarily U.S. companies that BSC believes will grow earnings substantially faster than the broader market in the future. Special consideration is paid to a company's profitability, reinvestment rate and operating performance to maximize the probability that shareholder wealth is created. Companies purchased for the portfolio are expected to be trading at low valuation levels based upon discounted cash flow models.

The value portion of the domestic core equity strategy seeks to purchase primarily U.S. companies that may be considered "good value candidates" by traditional industry valuation measures. Companies purchased are believed to have improving fundamental characteristics. It is BSC's belief that the companies' enhanced operating performance/structure will ultimately be recognized by the broader marketplace, resulting in increased share value.

## **Global Strategy**

The domestic strategy adds an international component to create a global core equity strategy that seeks to generally purchase high yielding, large international companies via the purchase of the ADRs. It is BSC's belief that purchasing leading international companies with higher than average dividend yields will provide current income in addition to potential capital appreciation over time.

## **Hedging and Exchange-Traded Funds**

In some market environments, BSC may partially hedge the portfolio against declines by purchasing inverse Exchange-Traded Funds (ETFs) if the risk of significant market correction appears high. This hedging technique can also detract from market gains. Such securities serve as synthetic short positions and play a roll in the overall strategy. More frequently, broad market or sector ETFs may be purchased as temporary allocations until individual stock opportunities present themselves.

## **Balanced Strategy**

Balanced accounts have an allocation to select fixed income ETFs in addition to the core equity strategy. Such accounts seek a balance between capital growth, capital preservation, and current income. The amount of Client assets allocated to fixed income securities is determined based upon each Client's unique return and risk objectives. Currently, BSC will only use fixed income ETFs for the portion of the portfolio to be allocated to fixed income and will not use bonds or debt securities.

## **Fixed Income Strategy**

The fixed income strategy seeks to provide low-risk current income and limited capital appreciation utilizing an intermediate fixed income investment strategy. The strategy also seeks investment results that correspond generally to the price and yield performance, before

fees and expenses, of the generally investment grade credit sector of (1) the United States Bond Market and the intermediate United States Treasury Market as defined by the Barclays Capital U.S. Intermediate Government/Credit Bond Index for taxable investments and (2) the U.S. Municipal Bond Market, as defined by the Barclays Capital Five Year Municipal Bond Index for tax-exempt investments.

The fixed income positions of the portfolio may be repositioned from time-to-time to adjust for certain interest rate scenarios based upon BSC's research and analysis of the yield curve. BSC uses research by select economists and/or market strategists for interest rate forecasts. Proprietary technical analysis (the use of price and volume patterns to forecast security price movements) is used to confirm any interest rate forecast before changes to the fixed income strategy security allocations are implemented.

Investors solely seeking fixed income management or investors who do not have a capital appreciation objective as an element of their financial objectives are not ideal Clients for BSC.

## **BLUE SHORES FEES**

### **Equity and Balanced Accounts**

Blue Shores *Capital* provides its services in an advisory wrap-fee environment offered on a discretionary basis. The fee schedule applicable to a BSC account is determined based on the size of the account as set out below. The following fee schedule applies to both equity and balanced accounts.

**Each account is charged an annual \$2,500 strategy fee and 1% of the market value of assets under management.**

Although it is not part of BSC's regular business practice, BSC reserves the right to discount its fee schedule at its discretion based upon a number of factors based upon the Client's objective, family or other related accounts, amount of assets under management, or the anticipated level of transactions. The fees are billed either monthly or quarterly in arrears, based upon the market value of the assets under management (without reduction for any margin debit), including accrued interest, at the end of each calendar month or quarter. Fees will be automatically debited from the account in accordance with the Client authorization as set forth in the Investment Advisory Agreement.

The fees include all costs associated with professional investment management services, performance monitoring, and reporting. The fees also include brokerage commissions on the purchases and sale of securities if Managed Account Services, LLC and/or its clearing entity, First Clearing, LLC ("MAS") or Pershing Advisor Solutions LLC and/or its clearing entity, Pershing, LLC ("PAS") acts as the broker dealer and custody charges if MAS or PAS and their agents are selected as the custodian. Additional fees may be incurred for transactions executed by a broker dealer other than through MAS or PAS and their agents, or if a custodian other than MAS or PAS and their agents are used. Both, Managed Account

Services, LLC and Pershing Advisor Solutions LLC and their clearing agents are securities broker-dealers registered with the Financial Industry Regulatory Authority (“FINRA”).

The initial fee covers the period from the inception date through the last day of the first billing month or quarter (depending on the client’s billing cycle) and will be pro-rated accordingly. Thereafter, the Client will be charged on either a monthly or quarterly basis in arrears. The monthly or quarterly period fee will be based on the market value of the account on the last business day of either the billing month or quarter and will become due the first business day following the month or quarter for which the fee is charged.

No fee adjustment will be made to the Client’s fee schedule during any billing period for contributions or withdrawals, nor shall any adjustment or refund be made with respect to partial withdrawals or deposits by the Client during any billing period.

In the event an account does not maintain a sufficient cash or money market fund balance to cover BSC’s fee, the Client may deposit additional funds (subject to certain restrictions for IRA and qualified retirement plan accounts) within five days, or the broker-dealer may, at its discretion, sell securities held in the account sufficient to cover fees.

For Clients subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) or other tax-qualified accounts, the receipt of compensation and fees referred to in this Brochure are subject to the restrictions imposed by ERISA and any applicable exemption thereto.

## **Additional Client Fees**

The fee charged in this Brochure is known as a “wrap-fee.” This fee covers the cost of the advisory management services provided by BSC, MAS or PAS custodial charges, and all brokerage commissions of MAS or PAS. BSC fees do not include: (1) custodial fees for assets held outside MAS and PAS; (2) account maintenance or trustee fees for MAS (and their clearing agent First Clearing LLC) or PAS (and their clearing agent Pershing, LLC) on qualified retirement plan, IRA, cash management or similar accounts; (3) transfer taxes; (4) dividend reinvestment costs; (5) odd-lot differentials; (6) foreign receives and delivers; (7) safekeeping fees, (8) wire fees; (9) checking writing fees or (10) any other charges imposed by law or otherwise agreed to with regard to Client accounts. These fees will be charged to Client accounts in addition to the BSC fees.

Any wrap-fee paid by the Client does not cover the management, distribution and other fees and expenses incurred by mutual funds, money market funds, unit trusts, exchange-traded funds or closed-end funds held in a Client’s account. These fees are described in the prospectus of each respective investment product and are paid to the fund’s investment advisers and other service providers, but ultimately are borne by all shareholders.

The wrap fee does not cover margin debit balances with MAS or PAS, any other custodian fees, nor margin interest on such margin debit balances. Fees will be calculated on the total market value of the account without the reduction of any debit balance (that may occur to the

extent that margin is used). Trades in securities that customarily trade in “dealer markets,” such as fixed income securities, may be placed through broker-dealers other than MAS and PAS, and, accordingly, the net purchase or sale prices reflected on Client confirmations of such trades may reflect commissions or dealer “markups” or “markdowns” charged and “spreads” earned by such other broker-dealers. This is also true when Investment Managers select broker-dealers other than MAS and PAS for some, or all, of their trade executions.

IPC and the Client agree that MAS and PAS and their agents may withhold any tax to the extent required by law, and may remit such taxes to the appropriate governmental authority.

Additionally, the cash that is in the Client’s Account awaiting investment may be placed in money market funds with management expenses and distribution fees which are paid under distribution plans adopted by the funds pursuant to Rule 12b-1 under the Investment Company Act of 1940. To the extent consistent with ERISA, MAS or PAS or their agents may receive all or a portion of those distribution fees from the funds.

## **Evaluating the Cost of IPC’s Wrap-Fee Programs**

IPC is the sponsor of Blue Shores *Capital* which provides its services in an advisory wrap-fee environment. In evaluating a wrap-fee arrangement to determine if the wrap-fee charged is more or less than the aggregate cost of such services if they were to be provided separately, a Client should recognize the brokerage transactions are made “net” of commissions (i.e., without commissions) and a portion of the wrap-fee is generally considered as being in lieu of commissions. Additionally, the Client should consider the level of activity (trading volume or frequency) in a Client account, the value of custodial and other brokerage services, the associated cost of trading and the advisory services provided under this arrangement.

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## **5. Account Requirements and Types of Clients**

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### **MINIMUM ACCOUNT SIZE; ACCOUNT TERMINATION**

Generally, the minimum initial account size managed by BSC is \$200,000. Although BSC’s general business practice is not to terminate accounts based on reduction in account value, BSC reserves the right to terminate an account that drops below the required minimum.

Either BSC or the Client may terminate the management agreement upon 30 days’ prior written notice. In addition, the Client has the right to terminate the agreement at no cost (excluding market fluctuations), upon written notice to BSC, any time within five business days after the effective date in which the Client signed the agreement. If the agreement is terminated by either BSC or the Client, a pro-rata fee from the date of termination through the end of the previous billing period will be billed.

## **TYPES OF CLIENTS**

IPC's Clients include, but are not limited to, individuals, pension and profit sharing plans, trusts, estates, charitable or non-profit organizations, corporations, municipalities and Wealth Management Companies. Tax-qualified, pension and profit sharing plans or other retirement vehicles subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or the Internal Revenue Code of 1986, as amended are subject to special rules.

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## **6. Portfolio Manager Selection and Evaluation**

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BSC is a proprietary investment management division of IPC that has established its own wrap fee program in which it is the only participating investment manager. The Investment Policy Committee, which primarily consist of Senior Executive Members of IPC and BSC Investment Strategy Committee, typically meets monthly to review the Blue Shore investment strategy. BSC offers Domestic Equity, Global Equity and Fixed Income investment management strategies. The basis for recommending a particular strategy is based upon information gathered while developing an investment policy for the Client. BSC recommendations depend upon the information a Client provides in the Investor Profile Form. The Investor Profile seeks to obtain information about the purpose of the account, the Client's primary investment objective, tolerance for risk, liquidity needs, age, occupation, income, net worth and other special considerations that would impact how the Client desires the account to be managed. BSC may recommend a change in strategy should a client communicate a change in their financial situation, investment objectives or wish to modify their investment objectives and or account restrictions.

BSC follows the Global Investment Performance Standards ("GIPS®") which are a set of standardized, industry-wide ethical principles that provide investment firms with guidance on how to calculate and report their investment results to prospective clients. The GIPS® standards are voluntary and are based on the fundamental principles of full disclosure and fair representation of investment performance results. Claiming compliance with the GIPS® standards demonstrates a firm-wide commitment to ethical best practices and that the firm employs strong internal control processes. The GIPS® Executive Committee promotes the adoption and implementation of GIPS®, believing that global standardization of investment performance reporting gives investors around the world the additional transparency they need to compare and evaluate investment managers.

The BSC Chief Investment Officer is responsible for conducting monthly reviews of the BSC performance record for accuracy and compliance with GIPS®. While IPC reasonably believes this information to be accurate and in compliance with GIPS®, the performance information is not independently verified.

BSC advisory services are described in Section 4 above and Section 8 below. BSC also participates as a wrap-fee manager in other wrap fee programs and receives a portion of the fee

for its services. There is no difference in how BSC manages wrap-fee accounts and other accounts.

## **PERFORMANCE-BASED FEES & SIDE-BY-SIDE MANAGEMENT**

BSC does not charge any performance-based fees, which are fees based upon a share of the capital gains on, or capital appreciation of, the assets in a Client's account.

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

Investment analysis is conducted and strategies are implemented by the BSC Investment Strategy Committee for the investment strategies identified under Blue Shores *Capital* Advisory Services above. BSC manages a Domestic Equity Strategy, a Global Equity Strategy and a Fixed Income Strategy. The same investment process is used for both the Domestic and Global Equity Strategies. The primary distinction between the two strategies is that the Domestic Strategy does not have a strategic allocation to international securities as an asset class, whereas the Global Equity Strategy does. The Domestic Strategy is U.S. focused.

BSC's equity investment strategies employ two primary methods of analysis. First, BSC uses a top-down approach that examines global macroeconomic data and technical market security data. The second method focuses on individual security selection for the Client portfolios.

The top-down macroeconomic analysis consists of reviewing the broad business conditions and market cycles in an attempt to determine the best opportunities for investing capital. An investment framework is established by focusing on, and determining, the percent long equity exposure, style weightings, sector weightings and global investment themes. To establish a less than 100% long equity position (i.e., hedge) BSC increases the cash allocation and/or purchases inverse ETFs, which have the effect of reducing total long exposure.

BSC also applies technical analysis to multiple asset classes and markets to assist in the timing of the implementation of investment decisions that lead to portfolio changes.

The BSC security selection process uses a discounted free cash flow model to determine the valuation of stocks. BSC attempts to purchase securities when they are below their fair value estimate and sell when they are at or above their fair value estimate. Attractively valued securities are then screened based upon fundamental characteristics to determine a security's style alignment (i.e., growth or value) for proper representation in a portfolio based upon BSC's top-down macroeconomic analysis.

In some situations a global investment theme may be implemented using Exchange-Traded Funds (ETF). This may occur when BSC, through their research, does not find sufficient individual stock opportunities that meet their criteria as good candidates to implement the global macro investment theme. Additionally, this process is supplemented with the use of technical analysis to assist in the timing of purchase and sell decisions.

In some market environments, BSC may hedge the portfolio by purchasing inverse ETFs if the risk of significant market correction appears high. Such securities serve as synthetic short positions. More frequently, broad market or sector ETFs may be purchased as temporary allocations until individual stock opportunities present themselves. At times, ETFs or Exchange-Traded Notes that track the performance of commodities or currencies may be used. There is the risk that BSC's hedging (or market timing) may be untimely, as the portfolio is hedged when markets go up, or not, when markets go down, thus resulting in portfolio values that are less than what they may have been otherwise.

Fixed income allocations are managed based entirely on the top-down approach described above and implemented with fixed income ETFs. Fixed income allocations generally are intermediate in term structure and generally investment grade. Adjustments to duration and credit quality are made based on the top-down analysis approach.

Risk may be defined as the chance that an investment's or investment strategy's actual return will be different than expected. Risk includes the possibility of losing some or all of the original investment. A fundamental idea in finance is the relationship between risk and return. The greater the amount of risk that an investor is willing to take on, the greater the potential return. The reason for this is that investors need to be compensated for taking on additional risk.

**Market risk** is defined as the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates, commodity prices, and other relevant market rate or price changes (e.g., equity prices).

There can be no assurance that any investment, investment strategy or the investment asset allocation selected will be profitable or successful in achieving its investment objectives. Clients should understand the primary risk of investing in securities involves a loss of capital and should be prepared to bear such a loss. Investment in securities comes with inherent risks in exchange for a return on that investment as described above. In general, an investor may lose a portion of their principal and experience volatility in the value of that principal over time for various reasons as outlined below. This list is representative of many risks and is not necessarily a complete indication of all the risks a client may assume.

### ***1. Fixed Income Securities (Bonds)***

Fixed income securities are debt obligations of the issuer. The market value (price) of those obligations can vary over time for various reasons such as those listed below:

- a. **Fixed Income Securities:** An investment strategy that invests in fixed income securities includes corporate bonds, government bonds, municipal bonds, other debt instruments, Exchange-Traded Funds and mutual funds that invest in these securities. Issuers generally pay a fixed, variable or floating interest rate and must also repay the amount borrowed at maturity. Some debt instruments, such as zero-coupon bonds, do not pay current interest, but are sold at a discount from their face value. Prices of fixed income securities generally decline when interest rates rise and rise when interest rates fall.

Investment strategies that invest in U.S. Government securities include securities issued or guaranteed by the U.S. Treasury; issued by a U.S. Government agency; or issued by a Government-Sponsored Enterprise (GSE). U.S. Treasury securities include direct obligations of the U.S. Treasury (i.e., Treasury bills, notes and bonds). U.S. Government agency bonds are backed by the full faith and credit of the U.S. Government or guaranteed by the U.S. Treasury (such as securities of the Government National Mortgage Association (GNMA or Ginnie Mae)). GSE bonds are issued by certain federally-chartered but privately-owned corporations, but are neither direct obligations of, nor backed by the full faith and credit of, the U.S. Government. GSE bonds include: bonds issued by Federal Home Loan Banks (FHLB), Federal Farm Credit Banks, Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) and the Federal National Mortgage Association (FNMA or Fannie Mae).

- b. **Duration Risk:** Duration is a measure of sensitivity of the change in market value to a given change in interest rates over time. Longer duration bonds, which typically have longer maturities, have more sensitivity to interest rate changes than short duration bonds. Additionally, longer-term debt and zero-coupon bonds are more sensitive to interest rate changes than debt instruments with shorter maturities.
- c. **Credit Risk:** Fixed income securities are also subject to credit risk, which is the chance that an issuer will fail to pay interest and/or principal on time. Many fixed income securities receive credit ratings from Nationally Recognized Statistical Rating Organizations (NRSROs). These NRSROs assign ratings to securities by assessing the likelihood of issuer default. Changes in the credit strength of an issuer may reduce the credit rating of its debt investments and may affect their value. High-quality debt instruments are rated at least AA or its equivalent by any NRSRO or are unrated debt instruments of equivalent quality. Issuers of high-grade debt instruments are considered to have a very strong capacity to pay principal and interest. Investment-grade debt instruments are rated at least Baa or its equivalent by any NRSRO or are unrated debt instruments of equivalent quality. Baa-rated securities are considered to have adequate capacity to pay principal and interest, although they also have speculative characteristics. Lower-rated debt securities tend to pay higher interest and are more likely to be adversely affected by changes in economic conditions than higher-rated debt securities.

An issuer suffering an adverse change in its financial condition could cause a lowering of the credit quality of a security, leading to greater price volatility of the security. A lowering of the credit rating of a security may also offset the security's liquidity, making it more difficult to sell. Investment strategies investing in lower quality debt securities, although generally having a higher yield, are more susceptible to these problems and their value may be more volatile.

**Non-Investment Grade Debt:** Credit risk is more pronounced for investments in fixed-income securities that are rated below Investment Grade or which are of

comparable quality. The risk of default may be greater and the market for these securities may be less active, making it more difficult to sell the securities at reasonable prices, and also making valuation of the securities more difficult.

## **2. *Equity Securities (Stocks)***

Stocks generally represent an ownership share in a company. The market value (price) of those ownership shares fluctuate over time.

- a. **Equity Securities Risk:** Equity securities include common stocks, preferred stocks, convertible securities, mutual funds and Exchange-Traded Funds that invest in these securities. Equity markets can be volatile. Stock prices rise and fall based on changes in an individual company's financial condition and overall market conditions. Stock prices can decline significantly in response to adverse market conditions, company-specific events, and other domestic and international political and economic developments.
- b. **Loss of Capital:** An owner of stock can lose some or all of their investment.
- c. **Risk Related to Company Size:** Investment strategies that include investing in mid, small and micro capitalization companies generally involves greater risks than investment strategies investing in larger, more established companies, and possibly have a higher probability of experiencing a loss of principal in exchange for potentially higher growth. The market may value companies according to size or market capitalization rather than financial performance. As a result, if mid-cap, small-cap or micro-cap investing is out of favor, these holdings may decline in price, even though their fundamentals are sound. They may be more difficult to buy and sell, subject to greater business risks and more sensitive to market changes than larger capitalization securities. However, the pattern of their volatility may be different than those of larger stocks; and, therefore, may have diversification benefits, possibly reducing the overall portfolio volatility.
- d. **Foreign Securities Risk:** Investments in foreign securities involve certain risks that differ from the risks of investing in domestic securities. Adverse political, economic, social or other conditions in a foreign country may make the securities of that country difficult or impossible to sell. It is more difficult to obtain reliable information about some foreign securities. The costs of investing in some foreign markets may be higher than investing in domestic markets.
  - However, some of this investment risk may be reduced by investing in foreign securities typically through American Depositary Receipts ("ADRs"). ADRs are certificates deposited with a U.S. bank that represent the right to own a foreign security. Since ADRs are traded in U.S. markets and the issuers are subject to the same auditing, accounting and financial reporting standards as domestic securities, owning ADRs has advantages over owning other foreign securities.

- Other risks an investor should be aware of when selecting an investment strategy that invests in foreign or international securities are:
  - i. **Currency Risk** – the risk that the U.S. Dollar’s exchange rate versus other currencies may change, thus increasing or decreasing the value of the stock once exchanged back into U.S. Dollars.
  - ii. **Political or Sovereign Risk** – Countries outside the U.S. have different legal, economic and political structures that can affect the value of investments in those countries.
  - iii. **Emerging Markets:** Investment strategies that invest in emerging international markets may experience additional risks beyond those listed above. Emerging markets may have less developed legal, economic and political structures that are in the process of emerging, and, therefore, may experience additional volatility beyond that of more economically developed countries.

Economies in Emerging Markets generally are heavily dependent upon international trade and, accordingly, have been, and may continue to be, affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been, and may continue to be, affected adversely by economic conditions in the countries in which they trade. Because of the special risks associated with investing in Emerging Markets, investments in such securities should be considered speculative. Investors in such strategies are advised to consider carefully the special risks of investing in emerging market securities.

The risk also exists that an emergency situation may arise in one or more developing markets, as a result of which trading of securities may cease or may be substantially curtailed and prices for an investment strategy’s securities in such markets may not be readily available. Investors should note that changes in the political climate in Emerging Markets may result in significant shifts in the attitude to the taxation of foreign investors. Such changes may result in changes to legislation, the interpretation of legislation, or the granting to foreign investors the benefit of tax exemptions or international tax treaties. The effect of such changes can be retrospective and can (if they occur) have an adverse impact on the investment return of the investment strategy.

### 3. *REITs*

- a. **REITs:** Real estate investment trusts, known as REITs, are entities that invest in different kinds of real estate or real estate related assets, including shopping centers, office buildings, hotels, and mortgages secured by real estate. There are basically three types of REITs:
- Equity REITs, the most common type of REIT, invest in or own real estate and potentially make money for investors from rents they collect as well as from price appreciation;
  - Mortgage REITs lend money to owners and developers or invest in financial instruments secured by mortgages on real estate; and
  - Hybrid REITs are a combination of equity and mortgage REITs.

The Internal Revenue Code lists the conditions a company must meet to qualify as a REIT. For example, the company must pay 90% of its taxable income to shareholders every year. It must also invest at least 75% of its total assets in real estate and generate 75% or more of its gross income from investments in, or mortgages on, real property.

Investing in real estate and real estate investment trusts (REITs) involve special risks, such as: limited liquidity, changes in tax laws, tenant turnover or defaults, competition, casualty losses and use of leverage. Real estate values may fluctuate based on economic and other factors. An investment in real estate or REITs may not be suitable for all investors, and there are no assurances that the investment objectives of any real estate program or strategy will be attained.

### 4. *Exchange-Traded Funds*

- a. **Exchange-Traded Funds (“ETFs”) Risk:** ETFs are open-end investment companies, unit investment trusts or depository receipts that may hold portfolios of bonds, stocks, commodities and/or currencies that are commonly designed, before expenses, to closely track the performance and/or yield of (i) a specific index, (ii) a basket of securities, commodities or currencies, or (iii) a particular commodity or currency. The types of indices sought to be replicated by ETFs most often include domestic equity indices, fixed income indices, sector indices and foreign or international indices. ETF shares are traded on exchanges and are traded and priced throughout the trading day. ETFs permit an investor to purchase a selling interest in a portfolio of stocks throughout the trading day. Because ETFs trade on an exchange, they may not trade at Net Asset Value (“NAV”), which is the value of the underlying securities after expenses. Sometimes, the prices of ETFs may vary significantly from the NAVs of the ETFs’ underlying securities. Additionally, if an investor decides to redeem ETF shares rather than selling them on a secondary market, the investor may receive the underlying securities which must be sold in order to obtain cash.

Also, ETFs consisting of bonds and bond funds will generally decrease in value as interest rates rise. ETFs consisting of commodities exhibit their own unique potential risk as these markets have historically been extremely volatile. Inverse ETF funds should lose money when their benchmark indexes rise – a result that is opposite from traditional mutual funds. Inverse ETF funds also entail certain risks, including inverse correlation, leverage, market price variance and short sales risks.

## **VOTING CLIENT SECURITIES (PROXY VOTING POLICY SUMMARY)**

IPC, as a matter of policy and as a fiduciary to our Clients, has responsibility for voting proxies consistent with the best economic interests of the Clients. IPC's policy and practice includes the implementation of a Proxy Voting Service for corporate actions and Client proxies. Clients may retain the right to vote any proxies or take action relating to specified securities held in the Account provided the Client gives timely, written prior notice to IPC. Clients are provided the option to vote their proxies in the Investment Management Agreements and Investment Advisory Agreements. IPC makes the information available to Clients about the voting of proxies for their portfolio securities upon request. A copy of the Policy and voting information may be obtained by writing to: Independent Portfolio Consultants, Inc., Attention: Compliance, 5002 T-Rex Avenue, Suite 225, Boca Raton, FL 33431.

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## **7. Client Information Provided to Portfolio Managers**

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## **INVESTMENT POLICIES AND INVESTMENT MANAGER COMMUNICATIONS**

For each account, an Investment Advisory Agreement is signed between the Client and BSC. The agreement outlines the terms by which the Client's account is to be managed. Attached to the Investment Advisory Agreement is a Statement of Investment Policy that outlines the Client's investment objectives. In order for IPC to prepare the Statement of Investment Policy the Client is asked to complete an Investor Profile. The Investor Profile seeks to obtain information about the purpose of the account, the Client's primary investment objective, tolerance for risk, liquidity needs, age, occupation, income, net worth and other special considerations that would impact how the Client desires the account to be managed.

Clients should notify their BSC Advisor when a Client's financial situation or investment objectives change or if a Client wants to modify their investment objectives and or account restrictions at any time. On a quarterly basis, the Client will be reminded to provide BSC with any information regarding significant changes to their financial condition and other information that may change their investment objectives. If a Client communicates a significant change in their investment policy or investment strategy, this information may require the completion of an Investor Profile and typically requires an update to the Client's Statement of Investment Policy.

Clients will also receive a quarterly performance report, which the Client can review with their BSC Advisor as often as is determined to be necessary, but at least annually. This report can be used to assist the Client in monitoring the results of their investment account in relation to their particular goals and objectives stated in their Statement of Investment Policy.

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## **8. Client Contact with Portfolio Managers**

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The BSC Advisor works with the Client to develop their objectives and investment strategies. However, Client's input is primarily limited to decisions about the target amount of equity, fixed income and cash equivalents in the investment policy target allocation and the individual security restrictions. A Client may choose to meet or speak with their BSC Advisor directly to review their account objectives and performance. The Advisor coordinates the conferences or meetings with a member of the BSC Investment Strategy Committee. The Investment Strategy Committee is a team that makes the investment decisions pertaining to the Client's account on a day-to-day basis.

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## **9. Additional Information**

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### **DISCIPLINARY INFORMATION**

IPC is required per the Security and Exchange Commission Rule 206(4)-4 to disclose in the Brochure material facts about any legal or disciplinary events of IPC or its management personnel. IPC does not have any legal or disciplinary events to report.

### **OTHER FINANCIAL INDUSTRY ACTIVITIES & AFFILIATIONS**

Independent Portfolio Consultants, Inc. is a registered investment adviser with the Securities and Exchange Commission and is primarily engaged in the managed assets business. IPC, and its executive officers, spend the majority of their time with these business activities. IPC also has entered into a Brokerage Services Agreement with Managed Account Services, LLC ("MAS") and most persons associated with IPC who provide investment advice to Clients are also registered representatives of MAS. MAS is actively engaged in business as a securities broker-dealer and acts as the primary executing broker for most of MAS' brokerage and advisory activities. In this capacity, MAS performs, among other services, trade executions and clearing support, in addition to related administrative and client services. The proportion of time spent on each of these activities by IPC representatives is not determinable.

## **CODE OF ETHICS**

IPC has adopted a Code of Ethics, in compliance with Rule 204A-1 of the Investment Advisers Act of 1940. The Code of Ethics, among other things, sets ethical standards and requires compliance with the securities laws, safeguards material, nonpublic information about Clients' transactions and portfolio holdings, and requires initial and annual reports of securities holdings for access persons. This Code of Ethics sets forth the rules for business conduct and personal investing activities of IPC's employees.

The provisions of the Code of Ethics apply to all IPC employees. A copy of the Policy may be obtained by writing to: Independent Portfolio Consultants, Inc., Attention: Compliance, 5002 T-Rex Avenue – Suite 225, Boca Raton, FL 33431.

## **PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS & PERSONAL TRADING**

IPC's employees and officers may maintain positions in, or buy or sell the same securities or related options as Clients buy or sell. In cases such as this, employees and officers of IPC would have an interest in the success of a security that may be recommended to, owned by, sold for or purchased for a Client.

Employee trades are reviewed, so that no employee's trade execution receives a better execution price than a Client's for the same security traded on the same day in a BSC account. IPC employees are not permitted to buy or sell any securities that are included on an "IPC Restricted Security List" (security trades placed by IPC acting in the capacity of a portfolio manager) for a 24 hour period. However, this restriction does not apply to employee accounts under contract with, and managed by, a professional Investment Manager. IPC will distribute the "IPC Restricted Security List" via an office-wide e-mail prior to trading securities for a BSC managed investment account. The time stamp and date on the e-mail begins the 24 hour restriction. Employee trades will be reviewed and, if an employee traded a security on the "IPC Restricted Security List," the employee trade may be busted to an error account, on a case-by-case basis, based upon the review of the previous day's trades, except as noted above. The intent is to avoid potential conflicts of interest that may arise in the trading activities on behalf of Clients.

## **Brokerage Executions**

### *Best Execution*

IPC as a matter of policy, seeks to obtain best execution for Client transactions, *i.e.*, seeking to obtain not necessarily the lowest commission but the best overall qualitative execution in the particular circumstances. While best execution is difficult to define and even more challenging to measure, it is generally accepted that it does not only mean achieving the best price but also includes many factors, such as the characteristics of specific trades, the stock being traded, specific needs of IPC Clients, conditions in the market at the time the order is placed and the overall efficiency of market structure. In

addition, IPC takes into account the fact that the Client's fees covers trades executed by Managed Account Services, LLC and/or its clearing agent, First Clearing, LLC or Pershing Advisor Solutions LLC and/or its clearing agent, Pershing, LLC (i.e., there are no additional commissions charged if trades are placed through these broker-dealers).

### *Brokerage Transactions*

IPC's policy is to not accept an advisory Client's instructions for directing a Client's brokerage transactions to a particular broker-dealer.

IPC sponsors wrap-fee programs in which transactions executed through Managed Account Services, LLC or Pershing Advisor Solutions LLC would be free of commission charges to Clients. BSC is generally free to consider the trading capability of these firms versus other brokers' trading capability. However, IPC anticipates that most trades will be placed through these entities for execution because of their execution capabilities and because the wrap-fee paid by Clients covers trade charges only when trades are executed through MAS or PAS or their agents. Wrap-fees do not cover charges resulting from trades effected with, or through, broker-dealers other than MAS or PAS or their agents, nor mark-ups nor mark-downs by such other broker-dealers. Further, it is expected that BSC would typically consider trades executed via MAS or PAS are without commissions or retail mark-ups or mark-downs when comparing the cost of trading for equity securities with other brokers. IPC would expect such a comparison would generally result in a decision to execute most trades through MAS or PAS.

BSC has full discretion in the management of accounts in its capacity as a Portfolio Manager. Clients direct BSC to use the brokerage services offered by MAS or PAS to effect transactions for the Client's account. BSC may use another broker or dealer to effect transactions for the account when it reasonably believes it can achieve best execution by using such other broker or dealer. However, because commissions for transactions executed through MAS and PAS are included in the wrap-fee the Client pays, IPC will not seek to negotiate commission rates with MAS or PAS and will use MAS and PAS to execute most, if not all, transactions for the account. However, if BSC believes that it would not be able to achieve best execution on a security transaction by placing trades for the Client's account through MAS or PAS, BSC may execute securities transactions through another broker-dealer, and the account will pay separate transaction costs.

BSC's policy is to not engage in any principal or agency cross-transactions. An agency cross-transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory Client and for another person on the other side of the transaction (SEC Rule 206(3)-2(b)). Agency cross-transactions typically may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

Also, as a matter of policy, IPC does not have any formal or informal arrangements or commitments to use research, research-related products and other services obtained from broker-dealers, or third parties, on a soft dollar commission basis.

### *IPC Trade Aggregation and Allocation*

The aggregation or blocking of Client transactions allows BSC to execute transactions in a more timely, equitable and efficient manner. Blocking is done in an attempt to achieve a better overall price execution for the Client.

As a matter of policy, IPC's allocation procedures must be fair and equitable to all Clients, with no particular group or Client(s) being favored or disfavored over any other Clients. IPC's policy prohibits any allocation of trades in a manner that favors IPC's proprietary accounts or any particular Client(s) or group of Clients.

IPC has adopted a policy for the fair and equitable allocation of transactions. The policy is as follows: For Client accounts managed by BSC on a discretionary basis, IPC may aggregate, block, or bunch Client trades, provided that the following conditions are met: (1) IPC will not aggregate transactions, unless it believes that aggregation is consistent with its duty to seek best execution for its Clients; (2) no advisory Client will be favored over any other Client; (3) each Client that participates in an aggregated order will participate at the average share price for a given order, in a given security, on a given business day, and (4) if the aggregated order is filled in its entirety, it will be allocated proportionately to receive the same allocation as the proportion of the total pre-trade allocation at the average price. For remaining portions that are filled on the following business day, Clients will receive the same allocation as the proportion of the total pre-trade allocation at the average price of the business day.

### *Error Correction Practices*

As a fiduciary, BSC has the responsibility to effect orders correctly, promptly and in the best interests of the Client. In the event an error occurs in BSC's handling of any transactions, due to BSC's actions, or inaction, or actions of others, BSC's policy is to seek to identify and correct any errors as promptly as possible, without disadvantaging the Client.

Profits and losses that result from the correction of erroneous trades made via MAS or PAS are absorbed by MAS' or PAS' respective error accounts. Losses that are incurred as a result of an error made by BSC are passed onto BSC to pay. If the resulting balance in MAS or PAS error account at the end of the year is a profit, the amount might be considered additional compensation to MAS or PAS.

Exceptions to the general rule of moving errors to the error account can be made for ERISA accounts in which case gains, resulting from the error correction, may be awarded to the Client. This is only permitted to the extent that the trade does not violate legal or Client guidelines.

## **REVIEW OF CLIENT ACCOUNTS**

Client portfolios are managed according to the investment strategy and philosophy developed by BSC. BSC's equity investment process narrows a universe of potentially attractive securities to a model in which Client securities are selected for purchase. The allocation of Client assets is subject to the risk/return objective set forth in a Client's Statement of Investment Policy.

A BSC Portfolio Manager reviews the daily trades for Client accounts. Also, the Portfolio Manager reviews the accounts weekly to ensure appropriate security structure and cash level in relation to the BSC investment model. Equity holdings are reviewed in relation to the model. Additionally, account activity is reviewed on a daily basis for exceptions and restrictions under the supervision of the Manager of Advisory Operations. Each account is balanced and reconciled by IPC at least monthly versus the Client's custodian statement.

On a quarterly basis, a consultant of the IPC's Consulting Group reviews each actively managed account relationship. These individuals review accounts to look at asset allocation, holdings, performance, as well as industry, sector and issue concentrations and for general adherence to BSC's stated style. Any discrepancies will be noted and reviewed.

### **Client Reporting**

BSC provides Clients a quarterly report that includes portfolio performance, asset allocation, portfolio holdings, capital gains and losses and contributions, withdrawals and income transactions for the quarter. The reports are generated following the quarters ending March 31st, June 30th, September 30th, and December 31st. BSC follows industry standards in the calculation and presentation of performance information.

Clients generally receive trade confirmations, as well as the monthly statements, from MAS and/or PAS in accordance with their investment advisory agreement. If the Client has selected a custodian other than MAS or PAS, the nature and frequency of reports will be determined by the agreement between the Client and the custodian.

Clients generally receive confirmation of transactions, as well as monthly statements, from Managed Account Services, LLC (produced by First Clearing, LLC) or Pershing Advisor Solutions LLC (produced by Pershing, LLC) in accordance with their BSC agreement(s). If the Client has selected a custodian other than MAS or PAS, the nature and frequency of reports will be determined by the agreement between the Client and the custodian. IPC advises Clients to compare the information on their IPC statement with the statement from their custodian. If Clients have any questions about their statements, please call IPC Client Services at 561-912-1040 or 800-346-4570.

### **Electronic Access of Communications**

As an IPC advisory Client, you may consent to electronic delivery of account communications ("Account Communications") at IPC's discretion. IPC will provide this

delivery of Account Communications by giving Clients access to their IPC account information via IPC's internet site utilizing an access password and account number. This may include all current and future advisory account statements, trade confirmations, notices, disclosures, regulatory communications, and other information, documents, data, and records regarding Client's IPC account. However, IPC is not able to provide electronic access or delivery of the Client's custodian statements and information. This consent to electronic delivery, when given, will be effective immediately and will remain in effect unless and until revoked. Clients may revoke this consent at anytime and request paper copies by writing to: Independent Portfolio Consultants, Inc., Attention: Compliance, 5002 T-Rex Avenue – Suite 225, Boca Raton, FL 33431.

## **CLIENT REFERRALS & OTHER COMPENSATION**

### **Referral Arrangements**

BSC, through IPC, may enter into referral arrangements with individuals, including independent financial planners, CPAs, registered investment advisers, Wealth Management Companies and broker dealers who are not employees or agents of IPC. IPC has a written agreement with all paid solicitors. These arrangements are done in compliance with the rules and regulations of the Investment Advisers Act of 1940, and the terms of the arrangements are fully disclosed to the Client at the time the referral is made. Clients do not typically pay a higher fee as a result of such payment arrangement.

### **Custody**

IPC does not maintain custody of Clients' funds or securities. As part of the BSC Wrap-Fee Program, IPC has arranged for custody by two primary qualified custodians. The client selects a custodian to have possession of the assets of the account, to settle transactions for the account, and to accept instructions from BSC regarding the assets in the account. In addition, these custodians provide BSC information on the additions to or withdrawals from the account.

BSC accounts are held through Managed Account Services, LLC ("MAS") as introducing broker-dealer. MAS uses First Clearing, LLC ("First Clearing") member NYSE/SIPC, on a fully-disclosed basis for clearing and custody services. First Clearing, LLC, a non-bank affiliate of Wells Fargo & Company, produces account statements and trade confirms, and provides IPC with other recordkeeping, operational, clearing and custodial services. First Clearing, LLC is a member of FINRA, the Securities Investor Protection Corporation ("SIPC"), the New York Stock Exchange, the NASDAQ Stock Market and other major regional stock exchanges. Clients who maintain securities accounts with Managed Account Services, LLC, through First Clearing, are protected by the SIPC up to \$500,000 for cash and securities, with a limit of \$250,000 for cash awaiting reinvestment. For additional security, First Clearing also provides coverage in excess of the \$500,000 SIPC limits through its policy with Lloyds of London Syndicate, the underwriter of this additional protection. This additional protection covers missing securities and cash in Client brokerage accounts up to a firm aggregate limit of \$1 billion, of which \$1.9 million may cover cash awaiting

reinvestment at the individual account level. However, this protection does not cover market losses. Assets held at outside custodians are not protected by First Clearing's SIPC coverage or the additional insurance.

Pershing Advisor Solutions LLC is a subsidiary of The Bank of New York Mellon Corporation, member FINRA, SIPC. Clearing, Custody, or other brokerage services may be provided by Pershing, LLC ("Pershing"), member FINRA, NYSE, SIPC. Pershing Advisor Solutions LLC relies on its affiliate Pershing to provide execution services. Clients who maintain securities accounts with PAS, through Pershing, are protected by the Securities Investor Protection Corporation ("SIPC") up to \$500,000 for cash and securities, with a limit of \$250,000 for cash awaiting reinvestment. For additional security, Pershing also provides coverage in excess of the \$500,000 SIPC limits through its policy with Lloyd's of London Syndicate, the underwriter of this additional protection. This additional protection covers missing securities and cash in Client brokerage accounts up to a firm aggregate limit of \$1 billion, of which \$1.9 million may cover cash awaiting reinvestment at the individual account level. However, this protection does not cover market losses. Assets held in custody outside of Pershing are not protected by Pershing's SIPC coverage or the additional insurance.

Additionally, custody fees may be incurred if a custodian other than MAS or PAS or their agents are used. If a custodian other than MAS or PAS or their agent is used, the client is responsible for the acts of the custodian and all direct expenses of the account, such as custodial fees, brokerage expenses, etc.

## **INVESTMENT DISCRETION**

BSC provides discretionary investment advisory services to Clients via equity and balanced (equity and fixed income securities) accounts. Prior to a Client retaining BSC to manage all or part of their financial assets, a careful review is conducted to determine the Client's objectives and risk tolerances. BSC then develops an investment plan or statement of investment policy for the Client based upon the client's investment goals, objectives and financial circumstances. Once accepted, the Client enters into an Investment Advisory Agreement with BSC. Thereby, Client grants BSC full discretion in the management of the investments of the Account. Client authorizes BSC, without prior consultation with, or approval from, the Client to invest and reinvest the assets in the Account.

Both cash and securities may be used to fund accounts. However, it is the intent of BSC that all securities so received be liquidated prior to, or simultaneous with, the purchase of securities for the account.

## **CONFLICTS OF INTEREST**

If a Client is in need of certain types of products and/or services that are not offered by BSC, BSC, through IPC, may refer the Client to various third-party entities that provide such products and/or services, and may receive direct or indirect compensation through referral fees, commissions or fee sharing, to the extent permitted by law, paid by the applicable third party.

Examples of these types of products and/or services may include, without limitation, risk management strategies, hedging and diversification strategies.

Many IPC employees who offer advisory services are also registered securities representatives of MAS and may execute trades for Clients who also participate in IPC's wrap-fee programs or other advisory programs, including BSC. These individuals may receive compensation from advisory or non-advisory Clients, resulting in a potential conflict of interest. IPC anticipates, however, that most trades will be placed through MAS or PAS, for execution because of their trading execution capabilities and because the wrap-fee paid by Clients covers trade charges only when trades are executed through MAS or PAS or their agents.

IPC, and its various relationships, provide a broad range of financial services to Clients. In offering such services, IPC, its employees, officers and affiliates may give advice and take action in the performance of their duties to certain of their Clients which may differ from advice given, or the timing and nature of action taken, with respect to other advisory Clients' accounts.

### **Video Conferencing**

IPC does provide a video conferencing unit to some Investment Executives in their Wealth Management Company's Office at no cost to the Wealth Management Company. IPC believes that a video installation increases the effectiveness of the communication between IPC and the Client. The installation of a video conferencing unit to communicate with IPC may be considered an inducement for the Wealth Management Company or an Investment Executive to recommend a managed account offered by IPC over other managed account services.

### **FINANCIAL INFORMATION**

IPC does not require nor solicit prepayment of more than \$1,200 in fees per Client, six months or more in advance.