

# Disclosure Brochure

March 23, 2011

## **Crestwood Advisors LLC**

*a Registered Investment Adviser*

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This brochure provides information about the qualifications and business practices of Crestwood Advisors LLC (hereinafter "Crestwood" or the "firm"). If you have any questions about the contents of this brochure, please contact John W. Morris at (617) 523-8880. 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 Crestwood Advisors LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Crestwood Advisors LLC is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## Item 2. Material Changes

This Item discusses only the material changes that have occurred since Crestwood's last annual update dated March 2, 2010. Crestwood does not have any material changes to disclose in response to this Item.

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### Supervised Person Brochure Supplements

## Item 4. Advisory Business

Crestwood Advisors LLC (“Crestwood” or the “firm”) has been in business as a Boston-based, SEC registered investment adviser since April 21, 2003. Since its inception, the firm has endeavored to deliver comprehensive, innovative investment solutions to high-net-worth individuals and families, foundations and endowments. Crestwood was founded on the belief that global exposure is essential to optimize portfolio growth. As such, the firm strives to provide its clients with an effective global asset allocation strategy to broaden opportunities for growth while mitigating overall portfolio risk.

Michael A. Eckton, John W. Morris and Robert G. Ix are the principal owners of Crestwood. The firm offers a broad range of investment services, which include investment strategy and management, as well as financial planning and consulting. Crestwood has \$711,517,000 of assets under management as of January 21, 2011, of which \$678,253,000 are managed on discretionary basis and \$33,264,000 are managed on a non-discretionary basis.

Prior to engaging Crestwood to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements setting forth the terms and conditions under which Crestwood renders its services (collectively the “*Agreement*”). Neither Crestwood nor the client may assign the *Agreement* without the consent of the other party. A transaction that does not result in a change of actual control or management of Crestwood is not considered an assignment.

This disclosure brochure describes the business of Crestwood. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of Crestwood’s officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on Crestwood’s behalf and is subject to Crestwood’s supervision or control.

### Investment Management and Wealth Management Services

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Clients can engage Crestwood to manage all or a portion of their assets on a discretionary or non-discretionary basis. In conjunction with portfolio management, Crestwood may provide these clients with certain financial planning and consulting services (collectively, the firm’s “wealth management services”), as part of this offering.

Crestwood allocates clients’ investment management assets among individual equity and debt securities, exchange-traded funds (“ETFs”), exchange-traded notes (“ETNs”), mutual funds and/or equity options in accordance with the investment objectives of the client. In addition, Crestwood may recommend that clients who are “accredited investors” as defined under Rule 501 of Regulation D, as promulgated under the Securities Act of 1933, invest in private placement securities, which may include debt, equity, and/or pooled investment vehicles when consistent with the clients’ investment objectives. Crestwood also provides advice about any type of investment held in clients’ portfolios.

Crestwood also may render non-discretionary investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, and/or 529 plans or other products that may not be held by the client's primary custodian. In so doing, Crestwood either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

Crestwood tailors its advisory services to the individual needs of clients. The firm consults with clients initially and on an ongoing basis to develop an investment policy statement which determines risk tolerance, time horizon and other factors that may impact the clients' investment needs. Crestwood ensures that the firm's clients' investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify Crestwood if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon Crestwood's management services.

## **Financial Planning and Consulting Services**

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As part of the firm's comprehensive wealth management service offering, Crestwood may provide investment clients with a range of financial planning and consulting services, addressing a variety of client-specific matters. These services may include certain tax and non-investment related functions otherwise requiring careful coordination with a client's trust, estate and tax advisors.

In performing its services, the firm is not required to verify any information received from the client or from the client's other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. Crestwood may recommend the services of itself, and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if Crestwood recommends its own services. The client is under no obligation to act upon any of the recommendations made by Crestwood under a financial planning or consulting engagement or to engage the services of any such recommended professional, including Crestwood itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of Crestwood's recommendations. Clients are advised that it remains their responsibility to promptly notify Crestwood if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising Crestwood's previous recommendations and/or services.

## **Additions and Withdrawals to Accounts**

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Clients may make additions to and withdrawals from their account at any time, subject to Crestwood's right to terminate an account. Clients may withdraw account assets on notice to Crestwood, subject to the usual and customary securities settlement procedures. However, Crestwood designs its portfolios as long-term investments and the withdrawal of assets may affect a client's investment objectives.

## Item 5. Fees and Compensation

Crestwood provides its services for an annual fee based on assets under management.

### Investment Management and Wealth Management Fee

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Crestwood's annual fee is prorated and charged quarterly, in arrears, based upon the average month-end market value of assets under its management during the billing quarter. The annual fee varies (between 0.60% and 1.00%), depending upon the market value of the assets under management, as follows:

<u>PORTFOLIO VALUE</u>	<u>BASE FEE</u>
Up to \$2,000,000	1.00%
\$2,000,001 to \$5,000,000	0.75%
Above \$5,000,000	0.60%

Crestwood's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. Crestwood does not, however, receive any portion of these commissions, fees, and costs.

Crestwood, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, pro bono activities, etc.).

### Fees Charged by Financial Institutions

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As further discussed in response to Item 12 (below), Crestwood generally recommends that clients utilize the brokerage and clearing services of Fidelity Institutional Wealth Services ("*Fidelity IWS*") for investment management accounts.

Crestwood may only implement its investment management recommendations after the client has arranged for and furnished Crestwood with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, *Fidelity IWS*, any other broker-dealer recommended by Crestwood, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the "*Financial Institutions*").

Clients may incur certain charges imposed by the *Financial Institutions* and other third parties including, but not limited to, custodial fees, charges imposed directly by a mutual fund or ETF in the account, which are disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, for assets outside of any wrap

fee programs, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to Crestwood's fee.

### Fee Debit

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Crestwood's *Agreement* and the separate agreement with any *Financial Institutions* authorize Crestwood to debit the client's account for the amount of the firm's fee and to directly remit that management fee to Crestwood. Any *Financial Institutions* recommended by Crestwood have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Crestwood.

### Fees for Management During Partial Quarters of Service

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For the initial period of investment management services, the fees are calculated on a *pro rata* basis.

The *Agreement* between Crestwood and the client will continue in effect until terminated in writing by either party pursuant to the terms of the *Agreement*. Crestwood's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Additions may be in cash or securities provided that Crestwood reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Crestwood may consult with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

If assets are deposited into or withdrawn from an account after the inception of a quarter, the fee payable with respect to such assets will not be adjusted or prorated based on the number of days remaining in the quarter.

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

Crestwood does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.



## Item 7. Types of Clients

Crestwood provides its services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

### Minimum Account Size

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As a condition for starting and maintaining a relationship, Crestwood generally imposes a minimum portfolio size of \$1,000,000.

The firm, in its sole discretion, may accept clients with smaller portfolios based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and *pro bono* activities. Crestwood only accepts clients with less than the minimum portfolio size if, in the sole opinion of Crestwood, the smaller portfolio size will not cause a substantial increase of investment risk beyond the client's identified risk tolerance. Crestwood may aggregate the portfolios of family members to meet the minimum portfolio size.

### Minimum Quarterly Fee

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In the event Crestwood accepts an account with assets below its stated portfolio minimum, Crestwood generally imposes as minimum quarterly fee of \$2,500.

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

### Primary Method of Analysis

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Crestwood relies primarily on a fundamental method of analysis.

The firm takes a "top-down" view on the global economy and allocates capital across multiple asset classes, based on a number of factors including valuation, risk and future opportunity. Individual security selection begins with quantitative screening based on growth, profitability and valuation. Crestwood then applies fundamental research which may include analysis on company management, product suite, sales, growth opportunities, and sustainable competitive advantages, among other attributes.

The primary risk in relying on fundamental-based analyses is that while the overall health and position of a company may be good, broad market or industry conditions may negatively impact the security.

### Investment Strategy

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Crestwood constructs client portfolios with a strict buy/sell discipline. Portfolios are proactively rebalanced based on evolving client objectives and the firm's fundamental outlook for individual securities, investment markets and global economies. Crestwood customizes client portfolios based on each client's unique income needs, risk tolerance and time horizon. The firm employs a global investment strategy, which includes both a "top-down" (asset allocation) and "bottom-up" (security selection) approach to asset management. As global allocators of capital, Crestwood focuses on investing in securities or markets where it can obtain responsible risk-adjusted returns.

On the "growth" allocation (equities) of a portfolio, Crestwood seeks to invest in individual companies with the following attributes:

- A distinct competitive advantage;
- Attractive cash flow and returns on equity;
- Diverse revenue stream (e.g., domestic and international); and
- Dividend payouts (as appropriate).

Crestwood augments its individual equity selections by investing in ETFs and ETNs to give its clients' portfolios exposure to international and emerging equity markets. ETFs are chosen based on their daily trading volume, underlying fee and trading strategy. Crestwood also utilizes ETFs as a way to gain exposure to hard assets, such as gold, agriculture and energy. In the event the firm is unable to use individual securities or ETFs/ETNs to effectuate a particular portfolio strategy, Crestwood may utilize low cost mutual funds, as an alternative to its primary growth investments. These allocations may change at any time without client notification.

On the “income” allocation (bonds) of a portfolio, Crestwood seeks to invest in both domestic and international fixed-income vehicles. In many cases, the firm purchases individual taxable or tax exempt bonds in clients’ accounts. In doing so, Crestwood is able to target bond duration, credit quality and liquidity. As for other Income-oriented investments, Crestwood employs ETFs and/or low cost mutual funds in an effort to achieve a well-diversified portfolio that includes positions in both domestic and international debt securities.

Crestwood’s global investment strategy is designed to produce more predictable investment returns over time. By placing clients’ capital in a diverse mix of correlating and non-correlating assets, the firm strives to reduce downside risk and enhance upside risk-adjusted returns. Crestwood’s management style strives to be tax efficient, as it seeks to harvest tax lots in order to reduce short- and long-term gains, as appropriate.

### **Mutual Funds and Exchange-Traded Funds (ETFs)**

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An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund’s underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss. As such, a mutual fund investor may incur substantial tax liabilities even when the fund underperforms.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund’s stated daily per share net asset value (“NAV”), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund’s holdings. The trading prices of a mutual fund’s shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund’s shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

## Exchange-Traded Notes (ETNs)

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Crestwood may recommend an investment in, or allocate assets among, various ETNs. ETNs are unsecured debt securities which are listed on securities exchanges and transacted at negotiated prices in the secondary market. ETNs are designed to track the performance of a corresponding benchmark. An ETN is essentially a contract between an issuer and the ETN holder, whereby the issuer, upon maturity, agrees to pay an amount relative to the returns of the underlying benchmark. In addition to the risks associated with the specific benchmark, ETN holders are also subject to various counterparty concerns. In this respect, the value of an ETN may be adversely impacted by a downgrade to the issuer's credit rating and/or an unwillingness or inability of the issuer to perform its contractual obligations.

## Options

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Options allow investors to buy or sell a security at a contracted "strike" price (not necessarily the current market price) at or within a specific period of time. Clients may pay or collect a premium for buying or selling an option. Investors transact in options to either hedge (limit) losses in an attempt to reduce risk or to speculate on the performance of the underlying securities. Options transactions contain a number of inherent risks, including the partial or total loss of principal in the event that the value of the underlying security or index does not increase/decrease to the level of the respective strike price. Holders of options contracts are also subject to default by the option writer which may be unwilling or unable to perform its contractual obligations.

## Management Through Similarly Managed Accounts

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For certain clients, Crestwood may manage portfolios by allocating portfolio assets among various mutual funds and/or securities on a discretionary basis using one or more of its proprietary investment strategies (collectively referred to as "*investment strategy*"). In so doing, Crestwood buys, sells, exchanges and/or transfers shares of mutual funds and/or securities based upon the *investment strategy*.

Crestwood's management using the *investment strategy* complies with the requirements of Rule 3a-4, as promulgated under the Investment Company Act of 1940. Rule 3a-4 provides similarly managed accounts, such as the *investment strategy*, with a safe harbor from the definition of an investment company.

Securities in the *investment strategy* are usually exchanged and/or transferred without regard to a client's individual tax ramifications. Certain investment opportunities that become available to Crestwood's clients may be limited. As further discussed in response to Item 12 (below), Crestwood allocates investment opportunities among its clients on a fair and equitable basis.

## **Market Risks**

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The profitability of a significant portion of Crestwood's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that Crestwood will be able to predict those price movements accurately.

## **Use of Private Collective Investment Vehicles**

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For certain accredited investors, Crestwood may recommend investment in privately placed collective investment vehicles (some of which may be typically called "hedge funds"). The managers of these vehicles will have broad discretion in selecting the investments. There are few limitations on the types of securities or other financial instruments which may be traded and no requirement to diversify. Hedge funds may trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the vehicle. In addition, because the vehicles are not registered as investment companies, there is an absence of regulation. There are numerous other risks in investing in these securities. The client will receive a private placement memorandum and/or other documents explaining such risks. Prior to investing in any of these instruments, Crestwood obtains written consent from the client.

## **General Risk of Loss**

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Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

### **Item 9. Disciplinary Information**

Crestwood is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. Crestwood does not have any required disclosures to this Item.

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

Crestwood is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons. Crestwood does not have any activities or affiliations to report in response to this Item.

### Item 11. Code of Ethics

Crestwood and persons associated with Crestwood (“Associated Persons”) are permitted to buy or sell securities that it also recommends to clients consistent with the firm’s policies and procedures.

Crestwood has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws (“*Code of Ethics*”). In accordance with Section 204A of the Investment Advisers Act of 1940 (the “Advisers Act”), its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by Crestwood or any of its associated persons. The *Code of Ethics* also requires that certain of Crestwood’s personnel (called “*Access Persons*”) report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in the firm’s *Code of Ethics*, none of Crestwood’s *Access Persons* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of Crestwood’s clients.

When Crestwood is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Crestwood is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers’ acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact Crestwood to request a copy of its *Code of Ethics*.



## Item 12. Brokerage Practices

As discussed above, in Item 5, Crestwood generally recommends that clients utilize the brokerage and clearing services of *Fidelity IWS*.

Factors which the firm considers in recommending *Fidelity IWS* or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. The commissions and/or transaction fees charged by *Fidelity IWS* may be higher or lower than those charged by other *Financial Institutions*.

The commissions paid by the firm's clients comply with Crestwood's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where Crestwood determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a *Financial Institution's* services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. The firm seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Transactions may be cleared through other *Financial Institutions* with whom Crestwood and the *Financial Institutions* have entered into agreements for prime brokerage clearing services. The firm periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

The client may direct Crestwood in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution*, and Crestwood will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by the firm (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, Crestwood may decline a client's request to direct brokerage if, in the firm's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Transactions for each client generally will be effected independently, unless Crestwood decides to purchase or sell the same securities for several clients at approximately the same time. Crestwood may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among Crestwood's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among Crestwood's clients pro rata to the purchase and sale orders placed for each client on any given

day. To the extent that Crestwood determines to aggregate client orders for the purchase or sale of securities, including securities in which Crestwood's *Supervised Persons* may invest, Crestwood generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. Crestwood does not receive any additional compensation or remuneration as a result of the aggregation. In the event that Crestwood determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, Crestwood may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist Crestwood in its investment decision-making process. Such research generally will be used to service all of Crestwood's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because Crestwood does not have to produce or pay for the products or services.

Crestwood considers the receipt of client referrals from *Fidelity IWS* or any other third party in selecting or recommending *Fidelity IWS*. This results in a conflict of interest as there is an incentive to select or recommend *Fidelity IWS* over other broker-dealers that may provide better execution. Crestwood has policies and procedures in place to ensure that clients receive best execution, as discussed above, without regard to any referrals received by Crestwood. This arrangement is discussed further in response to Item 14.

### **Software and Support Provided by Financial Institutions**

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The firm may receive from *Fidelity IWS*, without cost, computer software and related systems support, which allow Crestwood to better monitor client accounts maintained at *Fidelity IWS*. Crestwood may receive the software and related support without cost because Crestwood renders investment

management services to clients that maintain assets at *Fidelity IWS*. The software and related systems support may benefit Crestwood, but not its clients directly. In fulfilling its duties to its clients, Crestwood endeavors at all times to put the interests of its clients first. Clients should be aware, however, that Crestwood's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence Crestwood's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

Specifically, the firm may receive the following benefits from *Fidelity IWS*: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services its Institutional Wealth Services participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

### Item 13. Review of Accounts

For those clients to whom the firm provides investment management services, Crestwood monitors those portfolios as part of an ongoing supervisory process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom Crestwood also provides financial planning and/or consulting services, reviews are conducted on an “as needed” basis. Such reviews are conducted by one of the firm’s investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with Crestwood and to keep Crestwood informed of any changes thereto. Crestwood contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client’s financial situation and/or investment objectives.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom Crestwood provides investment advisory services will also receive a report from Crestwood that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance on a quarterly basis. Clients should compare the account statements they receive from their custodian with those they receive from Crestwood.

Those investment clients to whom Crestwood provides financial planning and/or consulting services will receive reports from Crestwood summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by Crestwood.

### Item 14. Client Referrals and Other Compensation

Crestwood is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. In addition, Crestwood is required to disclose any direct or indirect compensation that it provides for client referrals.

If a client is introduced to the firm by either an unaffiliated or an affiliated solicitor, Crestwood may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Advisers Act and any corresponding state securities law requirements. Any such referral fee is paid solely from Crestwood's investment management fee, and does not result in any additional charge to the client. If the client is introduced to Crestwood by an unaffiliated solicitor, the solicitor will provide the client with a copy of Crestwood's written disclosure statement which meets the requirements of Rule 204-3 of the Advisers Act and a copy of the solicitor's disclosure statement containing the terms and conditions of the solicitation arrangement including compensation. Any affiliated solicitor of Crestwood will disclose the nature of his/her relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of Crestwood's written disclosure statement at the time of the solicitation.

Crestwood has entered into an agreement with *Fidelity IWS* to participate in Fidelity Wealth Advisor Service ("WAS"), a referral service designed to match investors with an independent investment advisor in their area. The firm does not compensate or receive any compensation from *Fidelity IWS* for participating in WAS. Crestwood has agreed not to charge clients introduced through WAS fees or costs greater than the fees or costs the firm charges its advisory clients who were not introduced through WAS, and who have similar portfolios under management with Crestwood. Crestwood's participation in WAS may raise potential conflicts of interest. Although not required by WAS, the firm may be more likely to execute transactions for their clients referred through WAS with *Fidelity IWS*, consistent with Crestwood's duty of best execution as further discussed above.

Any other type of economic benefit that the firm receives for providing advisory services to clients which may pose a conflict of interest is disclosed in response to Item 12 (above).

### Item 15. Custody

Crestwood's *Agreement* and/or the separate agreement with any *Financial Institution* authorizes the firm through such *Financial Institution* to debit the client's account for the amount of Crestwood's fee and to directly remit that management fee to the firm in accordance with applicable custody rules.

The Financial Institutions recommended by Crestwood have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to the firm. In addition, as discussed in Item 13, Crestwood also sends periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the Financial Institutions and compare them to those received from Crestwood

### Item 16. Investment Discretion

Crestwood may be given the authority to exercise discretion on behalf of clients. The firm is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. The firm is given this authority through a power-of-attorney included in the agreement between Crestwood and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). Crestwood takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made; and
- The *Financial Institutions* to be utilized.

### Item 17. Voting Client Securities

Crestwood may vote proxies on behalf of its clients. The firm has engaged Broadridge for its ProxyEdge service with Glass Lewis voting recommendations. The service researches proxy proposals, provides recommendations and votes proxies on behalf of the firm. Crestwood has adopted Glass Lewis's Proxy Voting Guidelines, which are hereby incorporated by reference.

Crestwood's Chief Compliance Officer ("CCO") is responsible for monitoring the proxy voting process. The CCO strives to ensure that ProxyEdge is making voting decisions in the best interest of clients and that proxy votes are submitted in a timely manner.



### **Item 18. Financial Information**

Crestwood does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, Crestwood is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Crestwood has no disclosures pursuant to this Item.

## **Crestwood Advisors LLC**

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Prepared by:

