



# GENERATION

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## CAPITAL MANAGEMENT LLC

### Part 2A of Form ADV Firm Brochure Date Prepared: 02/28/2011

This Brochure provides information about the qualifications and business practices of GENERATION CAPITAL MANAGEMENT LLC ["GCM"]. If you have any questions about the contents of this Brochure, please contact us at 585-232-8560 and/or [snasca@gencapmgt.com](mailto:snasca@gencapmgt.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.

Generation Capital Management, LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser. Additional information about Generation Capital Management LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **Item 2 – Material Changes**

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure dated 12/31/2010 is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and requires certain new information that our previous brochure did not require.

In addition to this change, Generation Capital Management also has a material change which can be explained in greater detail in Item 10 - Other Financial Industry Activities and Affiliates. GCM hired Brian Valenti in 2010 as a Senior Investment Consultant. In addition to his positioning with GCM, Brian Valenti is a Registered Representative of APB Financial Group, LLC. Any investment management services, consultation or advice provided by GCM and any fee or charge made for such service is not in any way connected with APB Financial Group, LLC. Brian Valenti uses APB Financial as the broker dealer for commission based accounts. He will usually receive commissions in connection with such transactions. These accounts are not clients of GCM. Brian Valenti is not allowed to charge commissions on transactions in fee-based accounts. There are no required production targets for Brian Valenti to meet in relation to brokerage accounts or commissions generated. In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. Currently, our Brochure may be requested by contacting Rebecca Westervelt at 585-232-8560 or [rwestervelt@gencapmgmt.com](mailto:rwestervelt@gencapmgmt.com). It is also available to our existing and prospective clients 24 hours a day through the Investment Advisor Public Disclosure website.

We urge you to carefully review all subsequent summaries of material changes, as they will contain important information about any significant changes to our advisory services, fee structure, business practices, conflicts of interest, and disciplinary history.

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## **Item 4 –Advisory Business**

Generation Capital Management LLC (“GCM”) is a Rochester, NY-based independent, fee-based, SEC-Registered Investment Advisor. GCM was founded in 2003 by Scott Nasca. Mr. Nasca is the firm’s President, Chief Investment Officer and majority owner. Rebecca Westervelt is the firm’s Senior Vice President and Chief Compliance Officer.

### **Business Focus**

GCM provides intelligent, unbiased portfolio and investment management services for individuals, charities, institutions, government entities and foundations.

### **Initial Consultation**

Before we begin managing client portfolios, we engage a new or potential client in a pre-advisory consultation to gain better insight into the clients’ financial situation and expectations. During this consultation, we:

- Review the individual’s (or organization’s) goals, tax situation, financial needs and limitations
- Gauge the individual’s (or organization’s) tolerance for risk
- Conduct an analysis of current investment strategies and asset allocation

By understanding each of these financial characteristics and communicating our investment philosophy, we can proceed with developing an investment strategy for the client and setting the expectations for our client-advisor relationship.

Based on this conversation, the client typically selects a targeted allocation (fixed income, conservative balanced, balanced (fifty/fifty), growth balanced and equity). A large majority of our clients fit into one of these categories, however we also take into consideration special situations such as restrictions on certain securities or asset classes, liquidity needs and tax situations when managing portfolios. We continuously manage the investments in the portfolios and the guidelines for each account are reviewed as needed with clients for any changes in the basic assumptions.

### **Investment Advisory Services**

GCM provides discretionary portfolio management and retirement plan consulting services.

- 1) **Portfolio Management.** GCM offers active money management services for individuals, high net worth individuals, charities, institutions, trusts and estates, government entities and foundations.
  - a) **Investment Philosophy.** We believe the optimal strategy for long-term success requires extensive diversification across asset classes, sectors and styles. Our commitment to broad market representation by its very nature curtails risk and

creates well-diversified portfolios. Because no single investment strategy can outperform over an extended period of time, we provide our clients with the diversification necessary to eliminate the risk associated with single-strategy or single-sector investing.

- b) **Investment Strategy.** In order to reduce risk for our clients, GCM is attracted to the broad diversification and variety of styles of management as well as the opportunity to allocate assets to the domestic and global markets. We combine an active investment approach with a disciplined investment strategy. We generally prefer a macroeconomic approach (top-down) to investing as a security selection (bottom-up). Historically, certain industry sectors tend to do better than others during specific segments of the economic cycle. We combine the reliability of historical trends while factoring in current marketing conditions to set our targeted asset allocation. Our bottom-up analysis employs multiple analytic techniques including fundamental and technical analysis.
- c) **Securities Used.** GCM uses registered investment companies for parts of client portfolios. Registered investment companies come in two forms: open-end mutual funds and closed-end funds. For the portion of the clients' portfolio invested in registered investment companies, the client generally pays two advisory fees. First, the client pays a standard quarterly fee on the market value of total assets managed by GCM which can include assets in closed-end and open-end funds. Second, there is a management fee paid at the fund level which is deducted from the fund's net asset value. Likewise, other operating expenses are automatically deducted at the fund level. GCM has an active policy of monitoring the expense ratios of the registered investment companies to determine their size and appropriateness.
- i) **About Closed-End Funds:** Closed-end investment companies are publicly traded on the New York and American Stock Exchanges. Frequently, the selling price on the exchange or market value price is below the fund's net asset value and; therefore, represents an undervalued or inefficiently priced security. The discount to net asset value is one of the most important criteria for selecting closed-end funds. The effect of the discount often negates the additional expense paid at the fund level and provides the opportunity for higher returns over time than constructing a portfolio of individually purchased investments.
- d) **Portfolio Targets.** The table below shows the various portfolio allocations chosen by the majority of GCM clients. Each allocation seeks to maintain a percentage of equity and/or fixed income instruments in the portfolio. These targets can vary by  $\pm 15\%$  based on market conditions. GCM increases exposure to equity markets and/or fixed income markets when macroeconomic research suggests it is prudent to do so.

<b>Allocation</b>	<b>Targeted Percentage of Portfolio (Equity)</b>	<b>Targeted Percentage of Portfolio (Fixed Income)</b>
Equity	100%	0%
Growth Balanced	70%	30%
Balanced	50%	50%
Conservative Balanced	30%	70%
Fixed Income	0%	100%

GCM also provides an investment advisory service known as "Cash Investment Management Service".

**2.) Retirement Plan Consulting.** GCM also provides consulting services to retirement plan sponsors who utilize mutual funds as investment choices for plan participants. Currently, GCM does not provide these services to any organizations covered by ERISA. GCM offers fiduciary advisory services in the following areas: (1) assistance in the creation of and adherence to the investment policy statement and (2) investment selection and monitoring according to the guidelines set forth in the investment policy statement as approved by the plan sponsor.

a) **Investment Policy Statement.** GCM assists in establishing the investment policy statement. The investment policy statement outlines the process that a plan's sponsor intends to use in selecting and monitoring investments within the organization's retirement plan. Additionally GCM helps the plan sponsor implement and oversee the investment policy based on the roadmap provided by the investment policy statement. By continuously comparing the plan to the original goals and assumptions laid out within the investment policy statement, the plan sponsor can be assured that the goals of the plan are fulfilled.

b) **Investment Selection and Monitoring.** GCM offers independent, ongoing analysis to assist clients in choosing, monitoring and when necessary, replacing the appropriate investments to be offered in the plan. To provide this service, GCM uses purchased investment research services, along with information made available through investment periodicals, financial newspapers and magazines, annual reports and press releases. GCM takes into consideration a wide variety of factors as laid out in the investment policy statement. These criteria commonly include asset class representation, diversification, objective, performance/peer group ranking, style/style history, sector analysis, portfolio turnover percentage, and expenses. Each quarter, GCM provides quarterly reports to the plan sponsor with detailed analysis of mutual funds along with commentaries/suggestions which may include removal of certain funds. We will recommend suitable replacement funds as necessary. Reports also provide updates on other outstanding issues and/or items of interest.

GCM does not handle plan administration, recordkeeping, and other actuarial/legal matters. However, we may provide a review of the service providers for each of these areas and/or provide referrals.

As of December 31, 2011, GCM manages client assets of \$201,396,900, including \$36,809,576 on a discretionary basis and \$164,587,324 on a non-discretionary basis.

## Item 5 – Fees and Compensation

GCM charges fees for its investment advisory services that are based on a percentage of the client's total assets under management. Fees are negotiable and therefore may vary by client.

### Portfolio Management

The current (as of 12/31/2010) fee schedule for Asset Management Service is as follows:

<b><u>Fixed Income</u></b>	<b><u>Equity and Balanced</u></b>	
<b>0.80%</b>	<b>1.00%</b>	of market value on the first \$2,000,000
<b>0.70%</b>	<b>0.85%</b>	of market value on the next \$3,000,000
<b>0.50%</b>	<b>0.65%</b>	of market value on the next \$5,000,000
<b>0.40%</b>	<b>0.55%</b>	of market value over \$10,000,000

The current (as of 12/31/2010) fee schedule for Cash Management Service is as follows:

<b>0.70%</b>	of market value on the first \$2,000,000
<b>0.60%</b>	of market value on the next \$3,000,000
<b>0.40%</b>	of market value on the next \$5,000,000
<b>0.30%</b>	of market value over \$10,000,000

For both of the above management fee schedules, the fee is computed, charged quarterly in advance and placed in escrow until earned. There is no minimum fee for portfolio management services.

The long-term custody costs associated with the bank custodian recommended by GCM are as follows and are included in the above management fees.

Annual administrative account fee	\$50
Tax Services: 1099 Preparation	\$100
IRA Services	\$50

As stated in the discretionary investment management contract signed by each client, the client or GCM can terminate the investment management contract with thirty days written notification. The termination date is thirty days from the date the written notice was received by GCM. During the thirty day period, GCM will determine where the client wants the assets delivered or, acting on client instructions, GCM will sell certain or all assets and deliver cash on termination. Our goal is to provide the client an orderly transition of assets. For any clients who have pre-paid fees, the final fee will be computed from the date of the last fee to the date of termination. GCM will refund those fees not earned to the client during the thirty day period. When a client terminates management services with GCM, the client also terminates the master custody fee arrangements that GCM has negotiated.

The client's written agreement with GCM establishes the specific manner in which fees are charged. GCM typically bills its fees on a quarterly basis. Clients may elect either to (1) authorize GCM to directly debit fees from client accounts or (2) be billed directly for fees. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. GCM will not prorate fees for capital contributions and withdrawals made during an applicable calendar quarter. Upon termination of any account, GCM will refund any prepaid, unearned fees and collect any earned, unpaid fees.

GCM's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, 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. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to GCM's fee, and GCM shall not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that GCM considers in selecting or recommending broker-dealers for *client* transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

### **Retirement Plan Consulting**

GCM's annual fee can range from .02 to .50% of the total plan assets under management. GCM may also include an annual minimum fee based on asset size and scope of service. GCM may charge a flat charge fee in lieu thereof on a per job basis. The percentage of management fees assessed against the account depends on the size of the account and the consulting services requested.

### **Item 6 – Performance-Based Fees and Side-By-Side Management**

GCM does not charge any performance-based fees (fees based on a share of capital gains or capital appreciation of the assets of a client).



## **Item 7 – Types of Clients**

GCM provides portfolio management services to individuals, high net worth individuals, corporate pensions, 401(k) plans, corporations, trusts, estates, charitable institutions, municipal government entities and private investment funds. GCM requires a minimum account size of \$100,000.00. However, this requirement can be waived at GCM's discretion.

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

### **Methods of Analysis and Investment Strategies**

GCM combines an active investment approach with a disciplined investment strategy in order to best achieve the individual goals of our clients.

#### Equity Analysis

We generally prefer a macroeconomic approach to investing as a precursor to bottom-up security selection. In addition to monitoring a distinct set of macroeconomic indicators, we also identify business and economic cycle stages, recognizing that certain sectors outperform during specific stages. This top-down analysis is used to set our targeted asset allocation.

Our bottom-up analysis employs multiple analytic techniques, including fundamental and technical analysis, to ascertain which securities we will place in our portfolio. In doing so, we apply objective evaluation methods to various investments over specific time periods.

GCM invests principally in domestic equity securities, exchange-traded funds (ETFs) and closed-end funds (CEFs). ETFs and CEFs are “pooled” arrangements that allow us to participate in particular types of investments and/or markets. These types of instruments also allow for greater diversification when compared with using individual stocks.

We believe close monitoring and review combined with a sound, disciplined investment strategy is imperative to successful investing. We will provide our clients with these services and do so with the expressed intention of achieving individual goals through suitable investment alternatives in the most objective, cost-efficient manner.

#### Fixed-Income Analysis

Our fixed income management begins by assessing key domestic and international macroeconomic factors. This macroeconomic analysis serves as the foundation as we consider three main top-down criteria, listed below:

1. **Duration Management:** Our duration decision is formulated by looking at current interest rates and anticipated interest rate movements, anticipated inflation and monetary policy. Our goal is to provide our clients with a portfolio that carries lower interest rate sensitivity than the market.

2. **Yield Curve Analysis:** We position portfolios to optimize returns according to the expected changes in the yield curve based on historical intra-curve spread relationships. Our yield curve analysis may dictate a barbell, bullet, laddering, or indexing strategy.
3. **Sector Analysis:** We analyze historical yield spreads and credit risks. Our goal is to allocate to those sectors we believe may be undervalued in the marketplace.

Our security selection process considers relative yield, optionality, balance sheets and liquidity. This objective is implemented with a diverse blend of treasury bonds, corporate bonds, agencies, preferred stocks and money market instruments. We also include closed-end funds (CEFs) and exchange-traded funds (ETFs) to further capture value and increase diversity.

### **Risk of Loss**

Investing in securities involves risk of loss that clients should be prepared to bear. While GCM attempts to moderate these risks, there can be no assurance that its investment and trading activities will be successful or that clients will not suffer losses.

Clients should be aware of the following potential risks:

1. **No Guarantee of Investment Performance.** GCM cannot guarantee it will achieve positive or competitive investment returns. Unanticipated market conditions, political developments, regulatory and other factors, many of which cannot be anticipated or controlled, could result in GCM not generating positive or competitive after-tax returns or in a client losing a portion of their investment.
2. **Closed-End Fund and Exchange-Traded Fund Risk:** There are specific risks involved in the management of closed-end funds and exchange-traded funds which are described in detail in their prospectus. In general, CEFs and ETFs expose the investor to the strategy-specific risk of the fund. As in all securities investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a CEF or ETF, managers of different funds held by the client may purchase the same security, increasing the risk to the client if that security were to decline in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the CEF or ETF, which could make the holding(s) less suitable for the client's portfolio.
3. **Investment Strategy Risk.** The majority of GCM's investment activities will be based upon a strategy that requires, among other activities, anticipating economic trends or changes, evaluating the industry and prospect of companies and correctly anticipating the timing, direction and magnitude of subsequent changes in the values of such securities. There can be no assurance that GCM will be successful at implementing and managing the foregoing activities and no assurance that the general market conditions and other market forces, which may be beyond control,

will not prevent GCM from successfully implementing and managing its investment strategy.

4. **Market Risk:** Stock markets can be volatile. In other words, the prices of stocks can fall rapidly in response to developments affecting a specific company or industry, or to changing economic, political or market conditions. Investments may decline in value if the stock markets perform poorly. There is also a risk that the investments will underperform either the securities markets in general or particular segments of the securities markets
5. **Portfolio Turnover Risk:** Portfolio turnover refers to the rate at which investments are replaced. The higher the rate, the higher the transactional and brokerage costs associated with the turnover which may reduce the return, unless the securities traded can be bought and sold without corresponding commission costs. Active trading of securities may also increase your realized capital gains or losses, which may affect the taxes you pay.
6. **Foreign Risk:** Foreign markets can be more volatile than the U.S. market due to increased risks of adverse issuer, political, regulatory, market or economic developments and can perform differently from the U.S. market. Special risks associated with investments in foreign companies include exposure to currency fluctuations, less liquidity, less developed or less efficient trading markets, lack of comprehensive company information, political instability and differing auditing and legal standards.
7. **Reliance Upon the Firm:** GCM has been in the investment advisory business since 2003. The Firm's future profitability will depend upon the execution of our investment strategy. If there are losses of key personnel, GCM's ability to achieve its investment objectives could be materially and adversely affected.
8. **Issuer-Specific Risk:** The value of a specific security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole. The value of securities of smaller issuers can be more volatile than that of larger issuers. The value of certain types of securities can be more volatile due to increased sensitivity to adverse issuer, political, regulatory, market or economic developments.
9. **Effect of Substantial Withdrawals:** Clients making substantial withdrawals within a short period of time could require liquidation of securities positions more rapidly than would otherwise be desirable, possibly reducing the value of the client's assets and/or disrupting GCM's investment strategy. Reduction in assets could make it more difficult to generate a positive return or to recoup losses due to reductions in GCM's ability to take advantage of particular investment opportunities.

## **Item 9 – Disciplinary Information**

None

## **Item 10 – Other Financial Industry Activities and Affiliates**

GCM is not registered and does not have an application pending as a securities broker dealer, a futures merchant, a commodity pool operator or a commodity trading adviser.

Brian Valenti is currently registered with APB Financial Group, LLC. Any investment management services, consultation or advice provided by GCM and any fee or charge made for such service is not in any way connected with APB Financial Group, LLC. Brian Valenti uses APB Financial as the broker dealer for commission based accounts. He will usually receive commissions in connection with such transactions. These accounts are not clients of GCM. Brian Valenti is not allowed to charge commissions on transactions in fee-based accounts. There are no required production targets for Brian Valenti to meet in relation to brokerage accounts or commissions generated.

GCM provides investment advice and supervisory services to a private investment limited partnership, for which it serves as the general partner. The partnership operates as a pooled investment vehicle to provide, in part, diversification, management expertise, and other advantages to clients. The partnership has no investment strategy limitations and invests its assets in a number of independent investment managers and hedge funds, investment partnerships, other types of commingled investment vehicles and/or separate accounts managed or controlled by the Managers selected by GCM. The partnership's investment objective is to seek superior long-term Capital appreciation in all market conditions. No assurance can be given, however, that the partnership will achieve its objective and investment results may vary substantially over time and from period to period.

#### **Item 11 – Code of Ethics**

GCM has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. All supervised persons at GCM must acknowledge the terms of the Code of Ethics annually, or as amended. This Code of Ethics for GCM (summarized below) expects that all employees will:

- Pursuant to Section 206 of the Advisors Act, both GCM and its employees are prohibited from engaging in fraudulent, deceptive or manipulative conduct.
- GCM and its employees have an affirmative duty to act solely in the best interests of GCM clients.
- Understand that a material breach of the provisions of the Code may constitute grounds for disciplinary action, including termination of employment with GCM.
- No supervised person may trade, either personally or on behalf of others, while in the possession of material, non public information, nor may any personnel of GCM communicate material, non public information to others in violation of the law.
- The interests of client accounts will at all times be placed first
- All personal securities transactions will be conducted in such manner as to avoid any actual or potential conflict of interest or any abuse of any individual's position of trust and responsibility
- Pre-clearance required for participation in IPOs, and private or limited offerings
- Supervised persons should not accept or provide any gifts or favors that might influence the decisions you or the recipient must make in business transactions involving GCM.

- Any supervised person who accepts, directly or indirectly, anything of value from a person or entity that does business with or on behalf of GCM, including gifts and gratuities with value in excess of \$300 per year must obtain consent from Scott Nasca or Rebecca Westervelt before accepting such a gift.
- All information regarding GCM clients is confidential. Information may only be disclosed when the disclosure is consistent with the firm's policy and the client's direction.
- Every employee must provide an initial holdings report within ten days of hire, and personal securities transactions must be submitted within thirty days of the close of any calendar quarter.
- Every employee is accountable with respect to compliance, and the interpretation and enforcement of the Code of Ethics.

We will treat all clients, vendors and contact people with integrity and honesty and will always be fair when conducting business in the name of GCM.

GCM's clients or prospective clients may request a copy of the firm's Code of Ethics.

GCM has a policy that allows employees to maintain personal securities accounts provided any personal investing by an employee in any accounts in which the employee has a beneficial interest, including any accounts for any immediate family or household members is consistent with GCM's fiduciary duty to its clients and consistent with regulatory requirements. Each employee must identify any personal investment accounts and report all reportable transactions and investment activity (in the form of a brokerage or bank statement) on at least a quarterly basis to the firm's compliance officer.

## **Item 12 - Brokerage Practices**

GCM does not maintain custody of your assets [that we manage/on which we advise], although we may be deemed to have custody of your assets if you give us authority to withdraw assets from your account (see Item 15- Custody, below). Your assets must be maintained in an account at a "qualified custodian," generally a bank or a broker-dealer. Each new client signs a Discretionary Investment Management Agreement that includes a Limited Power of Attorney, Fee Agreement and Risk Allocation. There are usually no limitations on Generation Capital Management LLC's authority regarding the selection of brokers and dealers to be used, commission rates paid, and securities and amounts of securities that can be purchased or sold, although a few exceptions exist where clients may restrict certain investments. These restrictions usually regard issues including: debt rating, social issues, foreign investments and maximum percentage holdings of any investment type. Any investment restrictions are mutually agreed upon in advance by GCM and the client.

GCM, in one circumstance, is hired under a wrap fee arrangement where a broker-dealer recommends GCM to the client, executes portfolio transactions without any commission charges for the client, tracks the client's performance, processes the GCM management fee (client-directed), and maintains custody of the client's assets, all for a single fee. The client

is advised and agrees, that GCM has no input into the negotiation of trading commissions. Portfolio transactions will only occur with the referring broker-dealer, thus avoiding the additional trading costs that would be realized by using other broker-dealers. GCM adheres to the agreement its client has made with a specific broker-dealer. GCM views this arrangement as a specific contract negotiated between the client and broker-dealer, which includes GCM performing only the investment management function.

Generation Capital Management LLC adheres to the following brokerage allocation policies and practices. In most instances, where a specific agreement is reached between GCM and a client, GCM retains the authority to determine, without specific client consent, the broker-dealer to be used in any securities transaction and the commission rate to be paid. GCM does not generally suggest broker-dealers to clients.

GCM considers the full range of a broker-dealer's services in placing brokerage, including but not limited to:

- the value of research provided,
- execution capability,
- commission rate,
- financial responsibility, and
- responsiveness to GCM's directions.

Generation Capital Management LLC uses the value of products, research and services given to it as factors in its decision to utilize a broker-dealer, the products, research and services received by GCM include the following types of items:

- advisory reports on industries and securities;
- economic, financial and political data (e.g. Herzfeld Reports);
- technical and fundamental data (e.g. [www.thestreet.com](http://www.thestreet.com));
- specific security analysis;
- research oriented services (e.g.. Bloomberg Financial Markets and Advent Software);
- trading strategies
- services including client short-term custody; clearance and settlement systems (e.g. Depository Trust Company).

As a result of obtaining these products, research and services, clients may pay commissions higher than those obtainable from other broker-dealers in return for such products, research and services. When selecting broker-dealers to execute securities transactions, and when determining the reasonableness of commissions paid, GCM takes into consideration the value of products, research and services given to GCM by the executing broker. However, Generation Capital Management LLC does not, and will not sacrifice the principles of best qualitative execution for the client's account as a determinative factor in selecting a broker-dealer.

The benefits of the products, research and services ("soft dollar benefits") are viewed by GCM as global for all its clients rather than on a client by client basis. Soft dollar benefits

are not limited to those clients who may have generated a particular benefit although certain soft dollar allocations are connected to particular clients or groups of clients. Soft dollar benefits are not proportionally allocated to any accounts that may generate different amounts of the soft dollar benefits.

Some of the products, research and services received by GCM may serve a dual purpose of providing research for the benefits of clients and administrative assistance for the benefit of GCM. For these mixed use situations GCM makes a reasonable allocation of the cost of products, research and services according to its anticipated use. The portion which assists GCM in making investment decisions may be paid for by the commission costs, while the portion which does not relate to the investment decision process is paid for directly by GCM. GCM maintains books and records relative to the allocation of the anticipated use of the mixed-use product, research or service in order to demonstrate a good faith attempt under all circumstances to make the appropriate allocation.

GCM places block trade orders through brokerage firms that maintain omnibus trading accounts that are in the name of the custodian bank as custodian for the clients of Generation Capital Management LLC. The omnibus accounts represent subsidiary custodians for the bank custodian. When the trades are settled, they are immediately reflected on the bank custodian's records.

GCM has instituted a policy prohibiting cross transactions between its managed accounts. GCM votes proxies in a manner consistent with what we believe to be in the best interests of our clients, who are shareholders.

### **Item 13 – Review of Accounts**

Scott Nasca monitors the accounts on a continuous basis to ensure that each account is in line with its investment objectives and risk tolerance. Scott Nasca is the president and lead portfolio strategist. He is primarily responsible for trading the accounts.

Non-periodic reviews of client accounts may be triggered by material market, economic, or political events, or by changes in a client's financial situation (such as retirement, termination of employment, physical move or inheritance).

Clients receive a quarterly statement from the custodian as well as a quarterly report from Generation Capital Management. Typically, the report from GCM includes a portfolio appraisal and transaction summary. In addition to the quarterly reporting, some clients receive this information on a monthly basis or as requested. Clients are advised to compare the account statements they receive from the qualified custodian with those received from GCM.

### **Item 14- Client Referrals and Other Compensation**

GCM may compensate third parties for client referrals from individuals or companies ("Solicitors"). In these cases, there will be a written agreement between GCM and the Solicitors, which clearly defines the duties and responsibilities of the solicitor under this arrangement. Clients whose accounts are the subject of referral fees will receive full

written disclosure, in advance, of the terms of the referral arrangement. The Solicitor is also required to furnish a copy of the Firm's written disclosure document to the prospective client and obtain a written acknowledgement from the client that both the Solicitor's and GCM's disclosure documents have been received. The compensation received by the Solicitor is recognition that the third party referred the client and may provide other services directly to the client such as client meetings and overall consulting services.

### **Item 15 – Custody**

Under government regulations, we are deemed to have custody of your assets if, for example, you authorize us to instruct your bank or broker dealer (collectively called “custodian”) to deduct our advisory fees directly from your account. Your custodian, however, maintains actual custody of your assets. You will receive account statements directly from your custodian at least quarterly. They will be sent to the posting mail or email address you provided the custodian. You should carefully review these statements promptly when you receive them. GCM urges you to carefully review such statements and compare such official custodial records to the account statements you receive from us. Our statements may vary from custodial statements based on accounting procedures, recording dates, or valuation methodologies of securities.

### **Item 16 – Investment Discretion**

GCM manages money on a discretionary and a non-discretionary basis. Clients opening discretionary accounts are required to execute an Investment Advisory Agreement and limited power of attorney that, among other things, grants us the authority to manage their assets on a discretionary basis, meaning we have the authority to select the identity and amount of securities to be bought or sold in the client’s account. In all cases, however, such discretion is to be exercised in a manner consistent with the statement investment objective for the particular client account and in line with any client-imposed restrictions on the account. Investment guidelines and restrictions must be provided to GCM in writing. When selecting securities and determining amounts, GCM observes the investment policies, limitations and restrictions of the clients for which it advises, if any. For registered investment companies, GCM’s authority to trade securities may also be limited by certain federal securities and tax laws.

### **Item 17 – Voting Client Securities**

Proxy voting is an important right of shareholders and reasonable care and diligence must be undertaken to ensure that such rights are properly and timely exercised. Generation Capital Management LLC, as a matter of policy and as a fiduciary to our clients, has responsibility for voting proxies for portfolio securities consistent with the best economic interests of the clients. Our firm maintains written policies and procedures as to the handling, research, voting and reporting of proxy voting and makes appropriate disclosures about our firm’s proxy policies and practices. Our policy and practice includes the responsibility to monitor corporate actions, receive and vote client proxies and disclose



any potential conflicts of interest. Clients may obtain a copy of GCM's complete proxy voting policies and procedures upon request. Clients may also obtain information from GCM about how GCM voted any proxies on behalf of their account(s).

### ***Voting Guidelines***

- In the absence of specific voting guidelines from the client, Generation Capital Management LLC will vote proxies in the best interests of each particular client. Generation Capital Management LLC's policy is to vote all proxies from a specific issuer the same way for each client absent qualifying restrictions from a client. Clients are permitted to place reasonable restrictions on Generation Capital Management LLC's voting authority in the same manner that they may place such restrictions on the actual selection of account securities.
- Generation Capital Management LLC will generally vote in favor of routine corporate housekeeping proposals such as the election of directors and selection of auditors absent conflicts of interest raised by an auditor's non-audit services.
- Generation Capital Management LLC will generally vote against proposals that cause board members to become entrenched or cause unequal voting rights.
- In reviewing proposals, Generation Capital Management LLC will further consider the opinion of management and the effect on management, and the effect on shareholder value and the issuer's business practices.

### ***Conflicts of Interest***

- Generation Capital Management LLC will identify any conflicts that exist between the interests of the adviser and the client by reviewing the relationship of Generation Capital Management LLC with the issuer of each security to determine if Generation Capital Management LLC or any of its employees has any financial, business or personal relationship with the issuer.
- If a material conflict of interest exists, GCM will determine whether it is appropriate to disclose the conflict to the affected clients, to give the clients an opportunity to vote the proxies themselves, or to address the voting issue through other objective means such as voting in a manner consistent with a predetermined voting policy or receiving an independent third party voting recommendation.
- GCM will maintain a record of the voting resolution of any conflict of interest.

## **Item 18 – Financial Information**

Registered investment advisors are required in this Item to provide you with certain financial information or disclosures about GCM's financial condition. GCM has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.