

**HOTTINGER BROTHERS**

**DISCLOSURE BROCHURE**

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March 31, 2013

**This brochure provides information about the qualifications and business practices of Hottinger Brothers. If you have any questions about the contents of this brochure, please contact us at 212-332-7930. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.**

**Additional information about Hottinger Brothers is also available on the SEC's website at [www.Advisorinfo.sec.gov](http://www.Advisorinfo.sec.gov).**

Hottinger Brothers is an investment advisor registered with the SEC. Registration with the SEC does not imply a certain level of skill or training.

## **ITEM 2: MATERIAL CHANGES**

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### **Material Changes since the 2012 Update:**

The following material changes have been made to this brochure since the last annual update was provided to you on or about March 31, 2012:

- Name Changes. We have changed our legal name to "Hottinger Brothers LLC Groupe Banque Hottinger et Cie Limited" as part of a larger branding strategy implemented by our parent company, Banque Hottinger & Cie SA. Additionally, we have changed our primary business name to "Hottinger Brothers."
- Ownership Change. On or about October 1, 2012, one of our direct owners sold its interests in the company to certain of our other owners, as well as a less than 5% interest to Hottinger Capital Corp. ("HCC"), an affiliated registered investment adviser. In March 2013, HCC indirectly acquired a 51% ownership interest from one of our former direct owners. We are now 100% indirectly owned by HCC and two of our managers, Rudolf Millisits and Philippe Comby.

These changes are reflected in our Form ADV Part 1A, which is available on the SEC's website. Neither the name changes nor the ownership changes have had, nor are expected to have, any material effect on the investment advisory services we provide to our clients. The investment personnel responsible for managing client accounts has not changed and our compliance, custodial and other related infrastructures also have not been affected by these changes.

We also have updated our disclosure in Item 5 to clarify that it is our practice to bill our clients for advisory fees quarterly in arrears based on the market value of the clients' assets on the last day of that quarter. Additionally, our advisory fees will be prorated to the extent a client invests additional assets with the Advisor or withdraws a portion of its assets from the Advisor's management during a quarter. We have **not** changed, in any way, our historic practice of calculating our advisory fees, and any fees payable to the Advisor by our clients are not affected by this update.

### **Full Brochure Available**

Whenever you would like to receive a complete copy of our brochure, please contact us by telephone at: 212-332-7930.

We will ensure that you receive a summary of any material 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.

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#### **ITEM 4: ADVISORY BUSINESS**

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Hottinger Brothers LLC Groupe Banque Hottinger et Cie Limited, which conducts its advisory business under the name "Hottinger Brothers" (the "Advisor") provides discretionary investment management services by providing investment advice based on individual client needs. Customizing its investment services to each client's objectives, the Advisor develops an investment strategy for each client after reviewing the client's overall financial situation, investment restrictions, financial and personal objectives and specific investment goals.

The Advisor, which has been providing investment advisory services since 2004, is indirectly-owned by two of its managers, Rudolf Millisits and Philippe Comby, and Hottinger Capital Corp. ("HCC"), an investment adviser also registered with the SEC. HCC is controlled by members of the Hottinger family who manage the Groupe Banque Hottinger & Cie SA group of companies (the "Banque Hottinger Group"). The Banque Hottinger Group dates back to Banque Hottinguer, which was formed in Paris in 1786 and is one of Europe's oldest private banking firms. The Banque Hottinger Group has remained under the control of the Hottinger family through seven generations. Its headquarters are in Zurich with offices in Geneva, Sion, Basel, Brig and New York.

The Advisor intends to manage each client's portfolio based upon the individual needs and objectives of the client. The Advisor will generally be granted unlimited discretion, subject to written investment objectives, guidelines and investment restrictions developed with the client. The Advisor's discretionary authority to make investments for a portfolio will be directed by written investment guidelines and investment restrictions, if any, and guidelines provided by the client and set forth in the client's advisory contract. The Advisor will have, subject to those investment objectives, guidelines and investment restrictions, discretion to determine the securities in which the account will be invested, the amounts to be invested, and the price and timing of purchases and sales for the particular accounts in question.

The Advisor may offer investment advice not involving investment supervisory services to clients requiring periodic review of their investments and investment strategy. Investment advice of a non-periodic nature may be provided on a consultation basis and may include specific transaction recommendations that are not part of a continuous investment advisory agreement. The Advisor, however, expects to enter into contracts with most clients that involve ongoing investment advice.

The Advisor does not provide tax services, including any form of tax advice, and does not participate in any wrap fee programs. The Advisor only provides investment advice with respect to certain types of investments and strategies as described in Item 8 herein.

As of December 31, 2012, the Advisor managed approximately \$62 million of client assets on a discretionary basis.

## ITEM 5: FEES AND COMPENSATION

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The Advisor's basic fee schedule (based upon an annual percentage of the total market value of the portfolio) is as follows:

Global Equity Accounts:

First \$5 million	1.25%
Next \$2 million	1.00%
Next \$3 million	0.75%
Above \$10 million	Negotiable

Global Income/Global Balanced/Total Return Accounts:

First \$5 million	1.00%
Next \$2 million	0.75%
Next \$3 million	0.50%
Above \$10 million	Negotiable

The fees paid by a client will be negotiable and may vary from the applicable schedule above due to particular circumstances of the client or its portfolio and, as a result, one client may pay a higher fee to the Advisor than a second client for which the Advisor is providing substantially similar services. The actual fee rate paid by each client will be set forth in the advisory agreement between the Advisor and the client. Fees paid by the client to the Advisor may be higher or lower than the cost of similar services offered through other financial firms. The fees charged to the client will not be affected by the number of transactions executed on that client's behalf.

Fees will generally be billed quarterly in arrears based on the market value of the clients' assets on the last day of that quarter. Fees will be prorated for any beginning or ending period of an advisory agreement that is less than a full billing period. Likewise, fees will be prorated to the extent a client invests additional assets with the Adviser or withdraws a portion of its assets from the Advisor's management during a quarter. The Advisor may deduct its advisory fees from clients' assets or bill clients for fees incurred. A client may select either method, which will be reflected in the client's advisory agreement.

The Advisor's services will be terminable by the Advisor or the client generally upon 7 days' written notice to the other party. If an advisory agreement is terminated, advisory fees payable to the Advisor during the relevant period under the agreement will be prorated to the date of termination and any accrued portion of unpaid fees will be paid promptly by the client to the Advisor. The Advisor does not require any client to pay advisory fees prior to entering into an advisory agreement with the Advisor, nor does the Advisor require any client to pay any fees due under an advisory agreement in advance.

The Advisor uses an independent third-party custodian to provide custodial services in connection with the management of client assets. Please see Item 15 for additional information about custody of client assets. The cost of these services is not included in the advisory fees

described above. Clients are responsible for paying any such additional costs charged by the custodial services providers. The advisory fees charged by the Advisor also do not include the amount of any costs, expenses or commissions that a broker or dealer may charge in connection with transactions executed on behalf of client accounts. In addition, a custodian or registered broker may impose certain costs or charges associated with servicing client accounts, such as margin interest, costs relating to exchanging foreign currencies, odd lot differentials, regulatory fees, transfer taxes, exchange fees, wire transfer or postage fees, foreign clearing, settlement and custodial fees, and other fees or taxes required by law.

Neither the Advisor nor any of its supervised persons accepts compensation for the sale of securities or other investments.

## **ITEM 6: PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

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Currently, the Advisor does not charge performance-based fees. The Advisor may, in the future, charge different types of fees and use different fee structures, including performance or incentive fees based on a share of capital gains or capital appreciation of the assets under management in a client's account. If the Advisor were to charge a performance-based fee, the Advisor may have a reason to select investments for clients that are riskier or more speculative than it would select if it were paid only an asset-based fee.

The Advisor seeks to allocate investment opportunities to its clients, and otherwise to treat all of its clients, in a manner that is fair and equitable to all persons. The Advisor has adopted policies and procedures that it believes are reasonably designed to mitigate the potential conflicts of interest posed by managing multiple client portfolios. Additionally, the Advisor's investment committee meets regularly to review all allocation decisions and to determine their consistency with the Advisor's policies and procedures.

## **ITEM 7: TYPES OF CLIENTS**

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The Advisor provides a broad range of discretionary investment advisory services to clients, most of which consist of individuals, high net worth individuals. The Advisor also provides investment advisory services to smaller corporate and professional investors and other similar entities.

The Advisor may impose minimum account sizes (or fee equivalents) for starting new client accounts depending upon a number of factors including the type of client, type of mandate, and/or pre-existing relationship with the Advisor. Such minimum account sizes may be increased or decreased depending upon the specific circumstances of an individual client. The Advisor generally requires that clients have a minimum account size of \$1 million. Account sizes, however, are negotiable.



## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

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### **Methods of Analysis**

The Advisor derives the information used to make investment decisions on behalf of its clients from both internal and external resources. The Advisor uses a fundamentally research-oriented method of analysis in formulating investment advice or managing client assets. The Advisor utilizes a variety of resources as part of its analysis, including (i) the Advisor's experience in the relevant markets, (ii) information provided by internal and external analysts, (iii) personal discussions with members of company management, (iv) databases, quotation and research services and software that may be developed and maintained by third parties and (v) discussions with investment professionals hired by its advisory affiliates and other related persons.

The Advisor recommends various types of securities based on, among other factors, each client's particular investment objectives and guidelines and financial circumstances. The Advisor does not recommend primarily a particular type of security to all clients, because each client's risk tolerance and investment needs differ.

### **Investment Strategies and Related Risks**

The Advisor primarily offers four investment mandates to its discretionary clients—a global equity investment strategy, a global balanced strategy, a global income strategy and a total return strategy.

#### **Investment Strategies**

*Global Equity Portfolio Strategy.* Using this strategy, the Advisor invests client assets primarily in global equity securities, including securities of U.S. and non-U.S. companies. The Advisor is permitted to allocate client assets as follows: 20% to 100% in equity securities and 0% to 70% in convertible securities, fixed-income securities and other short-term investments. The Advisor also may invest client assets in commodities. Exposure to fixed-income and commodities investments is typically obtained by investing in investment companies, including exchange-traded funds ("ETFs"), that invest in those types of securities. However, the Advisor also may invest client assets directly in fixed-income securities. As the Advisor invests primarily in equity securities, the focus is more on growth than income.

*Global Balanced Strategy.* Using this strategy, the Advisor invests client assets in a balanced approach between global equity and fixed-income securities, including securities of U.S. and non-U.S. companies. The Advisor is permitted to allocate client assets as follows: 20% to 70% in fixed income securities, convertible securities and other short-terms investments and 0% to 50% in equity securities. The Advisor also may invest client assets in commodities. Exposure to fixed-income and commodities investments is typically obtained by investing in investment companies, including ETFs, that invest in those types of securities. However, the Advisor also may invest client assets directly in fixed-income securities. As the Advisor employs a balanced

approach that seek lower volatility than the equity markets, the focus is more on income than growth.

*Global Income Strategy.* Using this strategy, the Advisor invests client assets geared toward income producing securities of U.S. and non-U.S. companies. The Advisor is permitted to allocate clients assets as follows: 0% to 10% in alternative investments (i.e., hedge funds), 10% to 40% in fixed-income securities, 25% to 30% in equity securities and 20% to 50% in convertible securities and other short-term investments. Exposure to fixed-income and commodities investments is typically obtained by investing in investment companies, including ETFs, that invest in those types of securities. However, the Advisor also may invest client assets directly in fixed-income securities. The alternative investments are in hedge funds, which are used to reduce the volatility in the client's portfolio.

*Total Return Strategy.* Using this approach, the Advisor invests client assets in a similar manner as the other strategies, however, the Adviser is permitted to concentrate client assets in fewer securities and other instruments than otherwise permitted in the Global Equity Portfolio Strategy, the Global Balanced Portfolio Strategy or the Global Income Strategy. This approach is arguably more aggressive than the other strategies offered by the Advisor and focuses on both growth and income.

The Advisor's non-discretionary account clients engage the Advisor to provide one of these strategies, but direct the Advisor as to which securities or other instruments to buy and sell, based on the recommendations of the Advisor's portfolio management team.

In addition, upon written agreement with a client, the Advisor will enter into specified derivative transactions or other structured products for the client. The Advisor currently does not engage in these types of transactions for any client.

### Primary Types of Investments

As a general matter, the Advisor may invest in each type of securities or other instrument discussed below, but the allocation to a particular security or other instrument will vary depending on a client's particular investment strategy. The primary types of investments in which the Advisor will invest are summarized below, but you should ask the Advisor for additional information about other possible investments prior to entering into an advisory agreement with the Advisor.

*Common Stock and Other Equity Securities.* The Advisor may invest in common stock and other equity securities. Stocks represent shares of ownership in a company. After other claims are satisfied, common stockholders participate in company profits on a pro-rata basis; profits may be paid out in dividends or reinvested in the company to help it grow. Increases and decreases in earnings are usually reflected in a company's stock price, so common stocks generally have the greatest appreciation and depreciation potential of all corporate securities. The Advisor also may hold common stock received upon the conversion of convertible securities. In connection with investing in corporate debt securities, or restructuring of investments, the Advisor may receive warrants or other non-income producing equity securities.

*Preferred Stock.* The Advisor may invest in preferred stock. Preferred stock is a form of equity ownership in a corporation. The dividend on a preferred stock is a fixed payment which the corporation is not legally bound to pay. Certain classes of preferred stock are convertible, meaning the preferred stock is convertible into shares of common stock of the issuer. By investing in convertible preferred stock, the Advisor can receive a steady stream of dividends and still have the option to convert the preferred stock to common stock.

*Convertible Securities.* Convertible securities include fixed income securities that may be exchanged or converted into a predetermined number of shares of the issuer's underlying common stock at the option of the holder during a specified period. Convertible securities may take the form of convertible preferred stock, convertible bonds or debentures, units consisting of bonds and warrants or a combination of the features of several of these securities. Investment characteristics of convertible securities vary widely, which allows these securities to be employed for a variety of investment strategies.

*Foreign Securities.* Foreign securities include the securities of companies organized under the laws of countries other than the United States and those issued or guaranteed by governments other than the U.S. Government or by foreign supranational entities. They also include securities of companies whose principal trading market is in a country other than the United States or of companies (including those that are located in the United States or organized under U.S. law) that derive a significant portion of their revenue or profits from foreign businesses, investments or sales, or that have a majority of their assets outside the United States. They may be traded on foreign securities exchanges or in the foreign over-the-counter markets. Supranational entities include international organizations designated or supported by governmental entities to promote economic reconstruction or development and international banking institutions and related government agencies. The foreign securities in which the Advisor may invest also include securities of foreign companies located in emerging market countries, although the Advisor generally expects that client assets will be primarily invested in developed countries such as the United States, Canada and Western European countries.

*Foreign Currency Transactions.* The Advisor may invest client assets directly in foreign currencies or may invest in securities that trade in, or receive revenues in, foreign currencies. The Advisor may enter into foreign currency transactions for a variety of purposes, including to fix in U.S. dollars, between trade and settlement date, the value of a security the Advisor has agreed to buy or sell or to gain or reduce exposure to the foreign currency for investment purposes. Foreign currency transactions may involve, for example, the purchase of foreign currencies for U.S. dollars.

*Investment Companies.* The Advisor may invest in securities issued by registered and unregistered investment companies, including ETFs, in order to gain exposure to the fixed-income and commodities markets. ETFs are designed typically to provide investment results corresponding to a securities, commodities or other index. These may include Standard & Poor's Depositary Receipts ("SPDRs"), DIAMONDS or iShares exchange-traded funds ("iShares"), such as iShares MSCI EAFE Index Fund. ETFs usually are units of beneficial interest in an investment trust or represent undivided ownership interests in a portfolio of securities, in each

case with respect to a portfolio of all or substantially all of the component securities of, and in substantially the same weighting as, the relevant benchmark index. The benchmark indices of SPDRs and DIAMONDS are the Standard & Poor's 500 Stock Index and the Dow Jones Industrial Average, respectively. The benchmark index for iShares varies, generally corresponding to the name of the particular iShares fund. ETFs are designed to provide investment results that generally correspond to the price and yield performance of the component securities of the benchmark index. ETFs are listed on an exchange and trade in the secondary market on a per-share basis.

The Advisor also may invest in "hedge funds," which are investment companies that are exempt from registration under Sections (3)(c)(1) or (3)(c)(7) of the Investment Company Act of 1940, as amended. Hedge funds employ various types of strategies, including event-driven strategies; relative value strategies, global macro strategies, equity strategies and credit strategies. The Advisor will invest client assets in hedge funds it deems appropriate under prevailing economic and market conditions. Interests in hedge funds are not registered under the Securities Act of 1933, as amended, and are only available for purchase through private placements. As a result, a client's assets allocated to a hedge fund will generally be illiquid and not available for resale to the general public. Hedge fund managers typically charge both an asset-based fee and a performance-based fee to investors.

*Commodities.* Through investing in investment companies, the Advisor will gain investment exposure to commodities. Commodities are assets that have tangible properties, such as oil, metals, livestock or agricultural products. Historically, commodity investments have had a relatively high correlation with changes in inflation and a relatively low correlation to stock and bond returns. Commodity-related securities and other instruments provide exposure, which may include long and/or short exposure, to the investment returns of physical commodities that trade in commodities markets, without investing directly in physical commodities. An investment company in which the Advisor invests client assets may invest in commodity-related securities and other instruments, such as structured notes, swap agreements, options, futures and options on futures, that derive value from the price movement of commodities, or some other readily measurable economic variable dependent upon changes in the value of commodities or the commodities markets.

*Fixed-Income Securities.* Through investing in investment companies or through direct investment, the Advisor will gain investment exposure to fixed-income securities including corporate debt securities. Corporate debt securities include corporate bonds, debentures, notes and other similar instruments, including certain convertible securities. Debt securities may be acquired with warrants attached. Corporate income-producing securities also may include forms of preferred or preference stock. The rate of interest on a corporate debt security may be fixed, floating or variable, and may vary inversely with respect to a reference rate such as interest rates or other financial indicators. Variable and floating rate securities provide for a periodic adjustment in the interest rate paid on the obligations. The adjustment intervals may be regular, and range from daily up to annually, or may be event based, such as based on a change in the prime rate. The rate of return or return of principal on some debt obligations may be linked or indexed to the level of exchange rates between the U.S. dollar and a foreign currency or currencies. Such securities may include those whose principal amount or redemption price is

indexed to, and thus varies directly with, changes in the market price of certain commodities, including gold bullion or other precious metals. The Advisor also may invest in sovereign debt obligations and municipal obligations. In addition, the Advisor may invest in Eurodollar and Yankee Dollar instruments. Eurodollar instruments are bonds of foreign corporate and government issuers that pay interest and principal in U.S. dollars generally held in banks outside the United States, primarily in Europe. Yankee Dollar instruments are U.S. dollar-denominated bonds typically issued in the United States by foreign governments and their agencies and foreign banks and corporations.

*Money Market Instruments.* The Advisor may invest client assets in money market instruments, including bank obligations, commercial paper and money market funds. If the Advisor determines that adverse market conditions exist, it may adopt a temporary defensive position and invest up to 100% of a client's assets in money market instruments.

Investment Process. Within each strategy, in making investment decisions with respect to equity securities, the Advisor utilizes a macro-economic top-down approach to narrow the universe of possible investments, focusing on certain factors, including market volatility, interest rates and inflation forecasts, capacity, gross domestic product growth and earnings growth. Next, the Advisor relies on a fundamental analysis of each industry, and, within that industry, each company. Securities are evaluated for the opportunity for capital appreciation as well as for their potential to provide regular income and growth of income, as appropriate. The Advisor reviews each company's potential for success in light of general economic and industry trends, as well as the company's quality of management, financial condition, business plan, industry and sector market position, dividend payout ratio and corporate governance. Fundamental research efforts are enhanced through communication among the portfolio managers and the company's management team, who conduct internal research and extract information from external research.

### Material Investment Risks

Investing in securities involves the risk of loss that clients should be prepared to bear. The value of client assets is subject to a variety of factors, such as the liquidity and volatility of the securities markets. All securities and other investments, including investments of client assets made by the Advisor, involve financial risk, and portfolio transactions may give rise to tax liability. There is no guarantee regarding performance, and clients may lose money.

As a general matter, as the Advisor may invest in each type of security or other instrument discussed above—to varying degrees depending on the investment strategy for each client—the risks associated with those securities or other instruments also apply to each strategy offered by the Advisor. The materials risks are summarized below, but you should ask the Advisor for additional information about the risks associated with the Advisor's investment strategies prior to entering into an advisory agreement with the Advisor.

*Common Stock and Other Equity Securities.* Equity securities, including common stocks, and certain preferred stocks, convertible securities and warrants, fluctuate in value, often based on factors unrelated to the value of the issuer of the securities, and such fluctuations can be pronounced. Changes in the value of an investment in an equity security will result in changes in

the value of its shares and thus the return to investors. To the extent the Advisor purchases equity securities of small capitalization companies the stock prices of those companies may be subject to more abrupt or erratic market movements than the stocks of larger, more established companies, because these securities typically are traded in lower volume and the issuers typically are more subject to changes in earnings and prospects.

*Convertible Securities.* Convertible securities provide for a stable stream of income with generally higher yields than common stocks, but there can be no assurance of current income because the issuers of the convertible securities may default on their obligations. A convertible security, in addition to providing fixed income, offers the potential for capital appreciation through the conversion feature, which enables the holder to benefit from increases in the market price of the underlying common stock. There can be no assurance of capital appreciation, however, because securities prices fluctuate. Convertible securities generally offer lower interest or dividend yields than non-convertible securities of similar quality because of the potential for capital appreciation.

*Foreign Securities.* Investing in the securities of foreign issuers, as well as instruments that provide investment exposure to foreign securities and markets, involves risks that are not typically associated with investing in U.S. dollar-denominated securities of domestic issuers. Commissions on transactions in foreign securities may be higher than those for similar transactions on domestic stock markets and foreign custodial costs are higher than domestic custodial costs. In addition, clearance and settlement procedures may be different in foreign countries and, in certain markets, such procedures have on occasion been unable to keep pace with the volume of securities transactions, thus making it difficult to conduct such transactions. Foreign securities markets generally are not as developed or efficient as those in the United States. Securities of some foreign issuers are less liquid and more volatile than securities of comparable U.S. issuers. Similarly, volume and liquidity in most foreign securities markets are less than in the United States and, at times, volatility of price can be greater than in the United States.

The risks associated with investing in foreign securities are often heightened for investments in emerging market countries. These heightened risks include (i) greater risks of expropriation, confiscatory taxation, nationalization, and less social, political and economic stability; (ii) the small size of the markets for securities of emerging market issuers and the currently low or nonexistent volume of trading, resulting in lack of liquidity and in price volatility; (iii) certain national policies which may restrict investment opportunities including restrictions on investing in issuers or industries deemed sensitive to relevant national interests; and (iv) the absence of developed legal structures governing private or foreign investment and private property.

Because evidences of ownership of foreign securities usually are held outside the United States, by investing in foreign securities a client will be subject to additional risks, which include possible adverse political and economic developments, seizure or nationalization of foreign deposits and adoption of governmental restrictions that might adversely affect or restrict the payment of principal and interest on the foreign securities to investors located outside the country of the issuer, whether from currency blockage or otherwise.

*Foreign Currencies.* Because foreign securities often are purchased with and payable in currencies of foreign countries, the value of these assets as measured in U.S. dollars may be affected favorably or unfavorably by changes in currency rates, changes in foreign or U.S. laws or restrictions applicable to such investments and in exchange control regulations (e.g., currency blockage). A decline in the exchange rate of the currency (i.e., weakening of the currency against the U.S. dollar) in which a portfolio security is quoted or denominated relative to the U.S. dollar would reduce the value of the portfolio security.

Currency exchange rates may fluctuate significantly over short periods of time. They generally are determined by the forces of supply and demand in the foreign exchange markets and the relative merits of investments in different countries, actual or perceived changes in interest rates and other complex factors, as seen from an international perspective. Currency exchange rates also can be affected unpredictably by intervention, or failure to intervene, by U.S. or foreign governments or central banks, or by currency controls or political developments in the United States or abroad.

*Investment Companies.* Risks of investing in investment companies include risks associated with investing in investment companies generally and the risks associated with the types of investments made by the investment company. As an investor in an investment company, including an ETF, a client would bear, along with other investors, its pro rata portion of the investment company's expenses, including advisory fees. These expenses would be in addition to the advisory fees and other expenses that the client pays to the Advisor. In addition, a client's investments in an investment company is subject to the ability of that investment company's investment adviser to achieve the fund's investment objectives.

The values of ETFs are subject to change as the values of their respective component securities or commodities fluctuate according to market volatility. Investments in ETFs that are designed to correspond to an equity index involve certain inherent risks generally associated with investments in a broadly based portfolio of common stocks, including the risk that the general level of stock prices may decline, thereby adversely affecting the value of ETFs invested in by the Fund. Moreover, the Fund's investments in ETFs may not exactly match the performance of a direct investment in the respective indices to which they are intended to correspond due to the temporary unavailability of certain index securities in the secondary market or other extraordinary circumstances, such as discrepancies with respect to the weighting of securities.

Alternative investment products, such as hedge funds, involve a high degree of risk, often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing important tax information, are not subject to the same regulatory requirements as registered investment companies, often charge high fees which may offset any trading profits, and in many cases the underlying investments are not transparent and are known only to the investment manager of the fund.

*Commodities.* The value of commodity-related instruments may be affected by changes in overall market movements, volatility of the underlying benchmark, changes in interest rates or

factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, acts of terrorism, embargoes, tariffs and international economic, political and regulatory developments. The value of commodity-related instruments will rise or fall in response to changes in the underlying commodity or related index. Investments in commodity-related instruments may be subject to greater volatility than non-commodity based investments. A highly liquid secondary market may not exist for certain commodity-related instruments, and there can be no assurance that one will develop. Commodity-related instruments are also subject to credit and interest rate risks that in general affect the values of debt securities.

*Fixed-Income Securities.* Although fixed-income securities, which are interest-bearing securities, are investments which promise a stable stream of income, the prices of such securities are inversely affected by changes in interest rates and, therefore, are subject to the risk of market price fluctuations. The values of fixed-income securities also may be affected by changes in the credit rating or financial condition of the issuer. Certain securities, such as those with interest rates that fluctuate directly or indirectly based on multiples of a stated index, are designed to be highly sensitive to changes in interest rates and can subject the holders thereof to extreme reductions of yield and possibly loss of principal. The values of fixed-income securities also may be affected by changes in the credit rating or financial condition of the issuer.

Investments in sovereign debt obligations involve special risks which are not present in corporate debt obligations. The foreign issuer of the sovereign debt or the authorities that control the repayment of that debt may be unable or unwilling to repay principal or interest when due, and an investor may have limited recourse in the event of a default. Investing in Eurodollar and Yankee Dollar instruments involve risks associated with investing in foreign securities, which might affect payment of principal or interest on the bonds.

Municipal securities generally decline in value with increases in interest rates, when an issuer's financial condition worsens or when the rating on a bond is decreased. Many municipal securities may be called or redeemed prior to their stated maturity. In addition, the amount of public information available about municipal securities is generally less than that for corporate equities or bonds. Special factors, such as legislative changes and local and business developments, may adversely affect the yield and/or value of an investment in municipal securities.



**ITEM 9: DISCIPLINARY INFORMATION**

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Not applicable.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

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None of the Advisor's management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. Philippe Comby, Chief Investment Officer and Senior Vice President of the Advisor, is a registered futures commission merchant.

The Advisor may use Wellington Shields & Co., LLC ("Wellington"), an affiliated broker-dealer registered with the Financial Industry Regulatory Authority, to facilitate the execution of transactions for clients. The Advisor may execute client transactions through Wellington when, in the Advisor's judgment, transactions will be executed in a manner that is consistent with its overriding objective to seek best execution of orders for its clients (*i.e.*, in a manner that the client's total cost or proceeds in each transaction is the most favorable under the circumstances). Transactions may be executed through Wellington even though the commission for the transaction may exceed the commission charged by an unaffiliated firm for the same transaction. The Advisor will determine the overall reasonableness of the brokerage commissions and transaction costs on client transactions by taking into account such factors as current market conditions, the size and timing of the order, the difficulty of execution, the nature and character of the markets for the security to be purchased or sold, and the liquidity and depth afforded by a market or market maker. The Advisor has instituted policies and procedures to monitor its trading activity and to measure trade execution quality.

The Advisor serves as an investment advisor to various types of clients. From time to time, the Advisor may seek to invest assets of one client in a manner that may conflict with the trading activities of another client (as well as clients of the Advisor's affiliates and related persons). When monitoring such trading activities, the Advisor seeks to ensure that, viewed objectively and over time, all clients (and clients of advisory affiliates and related persons) are treated fairly and equitably. The Advisor does not recommend or select other investment Advisors for its clients.

In some cases, all or a portion of a client's assets may be invested in The Swiss Helvetia Fund, Inc. (the "Fund"), a registered investment company advised by HCC, an affiliate of the Advisor. The Fund invests primarily in equity and equity-linked securities issued by Swiss companies. In such case, clients may, in effect, pay two advisory fees on assets invested in the Fund, one to the Advisor based on the total assets in their account and another, indirectly, to HCC through their account's investment in the Fund. Fund investments also bear their proportionate share of other Fund expenses. HCC's fees from the Fund and other Fund expenses are described in the Fund's annual and semi-annual reports to the Fund's stockholders.

## **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

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### **Personal Trading and Code of Ethics**

Pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), the Advisor has adopted a Code of Ethics (the "Code"), which sets forth standards of business and personal conduct for directors and officers of the Advisor and certain employees of the Advisor and its affiliates ("Covered Persons") and addresses conflicts that arise from personal trading by Covered Persons. The Code is predicated on the principle that employees of the Advisor will adhere to the highest standards of ethical conduct and must:

- place client interests first;
- engage in personal securities transactions consistent with the Code and avoid any actual or potential conflict of interest or any abuse of the position of trust and responsibility;
- not take inappropriate advantage of their positions; and
- act in accordance with federal securities laws and other applicable laws and regulations.

The Advisor requires employees to conduct themselves in an appropriate manner, as more fully described in the Code. As part of the Code, the Advisor has adopted personal securities transaction and reporting policies with respect to its clients.

Covered Persons may not purchase or sell any security in which the Covered Person has beneficial ownership unless the security is an exempted security or the Covered Person has complied with the Advisor's personal trading policy. Covered Persons also may not acquire, directly or indirectly, any securities in an initial public offering or private placement without prior written approval of the chief compliance officer of the Advisor (the "CCO") prior to engaging in such transactions. The CCO will consider certain factors, including whether a client is eligible to act on the investment opportunity and whether the Covered Person's position at the Advisor was used to obtain the investment opportunity. The investment opportunity also must be reviewed by a portfolio manager with no personal interest in the issuer. Portfolio managers of the Advisor are generally prohibited from acquiring securities in an initial public offering.

Covered Persons are discouraged from frequent personal trading. Covered Persons, with certain limited exceptions and subject to pre-clearance approval, may not purchase or trade in a security or instrument opposite of the Advisor's recommendations to clients. Covered Persons also may not engage in "front-running" and engage in personal trades of securities held by any client who also may be trading in the securities. Covered Persons must submit initial statements of their personal securities holdings and provide the CCO with an updated list of personal securities holdings on an annual basis.

A copy of the Code is available to any client or prospective client upon request.

### **Participation or Interest in Client Transactions**

From time to time, the Advisor's managers, officers, employees and related persons may have positions in, purchase or sell securities where the same security or another security of the same company is either held in, purchased or sold for any of the Advisor's client accounts. The Advisor's decision to purchase, sell or maintain a position in any client account will be made without considering whether such action may affect any security positions of the Advisor's directors, officers, employees or related persons. If any purchase or sale of a security on behalf of the Advisor's client accounts occur during the same day that the Advisor, its members, officers, employees or related persons are purchasing or selling that security, and such person is exercising direct or indirect influence or control over the Advisor's client account, such account will always receive the best transaction price experienced that day. Transactions entered into to facilitate an execution for the Advisor's client account or to correct an error are excluded from the foregoing rules. The Advisor reserves the right to modify its trading policy in extenuating circumstances

## **ITEM 12: BROKERAGE PRACTICE**

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In general, and under the advisory agreements between the Advisor and its clients, the Advisor will, absent a specific designation by a client, select the brokers and dealers to be used for execution of transactions and will agree with such brokers and dealers as to the amount of commissions or spread to be paid. The selection of broker-dealers and commissions to be paid will be based upon best execution, taking into account such factors as price, commissions, size of order, difficulty of execution, skill required of the broker, product expertise and research information.

Special circumstances may warrant the use of a broker-dealer whose price execution does not necessarily reflect the best price execution in the marketplace. Such broker-dealer will be used in light of such factors as the trading conditions in the marketplace on the day the transaction is executed, the research and analysis effort that went into the transaction and any special service provided by the broker-dealer for the benefit of the client that may have led to the transaction. In certain circumstances, clients may incur charges in connection with the Advisor's purchase of a security on a foreign exchange if there is a delay in the execution of the trade by the broker-dealer.

The Advisor's policy requires that any brokerage commissions paid to Wellington, an affiliated person of the Advisor, be reasonable and fair compared with commissions paid to other brokers for comparable transactions, and will otherwise comply with regulatory requirements.

### **Soft Dollar Arrangements**

The Advisor primarily selects broker-dealers on the basis of execution capabilities. However, in certain circumstances and in its discretion, the Advisor may cause a client to pay a commission to a broker or dealer for effecting a transaction in excess of the amount that another broker or dealer would have charged for effecting the same transaction. The Advisor will first determine in good faith that the higher commission is reasonable in relation to the value of the brokerage and research services provided by that broker or dealer.

The receipt by the Advisor of research or services other than execution from a broker-dealer in connection with client transactions may create a conflict of interest, in that the Advisor has an incentive to choose a broker or dealer that provides research services instead of a broker or dealer that may not provide such services, but charges a lower commission rate. The Advisor will receive brokerage or research services only when consistent with the provisions of Section 28(e) of the Securities Exchange Act of 1934. Neither the research services provided by a broker or dealer nor the amount of brokerage given to a particular broker or dealer is determined pursuant to an arrangement or commitment that would obligate the Advisor to compensate selected brokers or dealers for the services provided.

If and to the extent the Advisor receives research in connection with client transactions, the Advisor may not allocate the relative costs or benefits of research among its various clients. As such, research obtained as the result of commission dollars may be used to service accounts other

than those for which trades were executed by the brokers or dealers providing the research. In addition, at times research may not be used to benefit the client account for which trades are executed by the brokers or dealers providing the research.

The Advisor may receive a variety of research services and information that may be used in connection with the Advisor's management of all client accounts. Such services and information may cover a variety of topics, including: issuers, industries, securities, economic factors and trends, portfolio strategy, performance of accounts, statistical information, market data, earnings estimates, critical analysis, pricing, risk measurement analysis and other information that may affect the U.S. or foreign economies, security prices or management of the portfolio. Research services are received primarily in the form of written reports, seminars, telephone contacts and personal meetings with security analysts, economists and senior issuer representatives.

Certain services may be used for research purposes as well as other purposes. In such cases, the portion allocated to research is paid for through commission dollars, and the portion allocated to other purposes is paid by the Advisor.

### **Directed Brokerage**

The investment advisory agreements between a client and the Advisor generally provides that the Advisor may select a broker, without prior notice to the client, in accordance with the Advisor's policy with respect to allocation of brokerage and brokerage commissions. That policy is discussed below under "Trade Aggregation."

Under certain conditions, however, the Advisor may accept written direction from a client to direct brokerage commissions from the client's account to a particular broker in exchange for services provided by the broker to the client. As a registered investment advisor, the Advisor's overall objective in effecting client transactions is to seek best execution, the Advisor will generally accept written directions from a client only with respect to a limited portion of clients' overall trades on a "best efforts" basis. As a result, the Advisor generally will not submit client orders with a directed broker when a pending order, with respect to the same security, with another broker is the broker providing best execution. In the case of a directed order, the Advisor may not be able to freely negotiate commission rates or select brokers on the basis of best available price and most favorable execution, and transactions directed in this manner may not be aggregated for execution with transactions in the same securities for other clients. The Advisor will generally execute directed transactions after executing transactions in the same security for clients who do not specify a particular broker-dealer. Consequently, clients that have directed brokerage arrangements may have to pay higher commissions or receive a less favorable net price than would be in the case if the Advisor were authorized to choose the broker-dealer through which to execute transactions. Further, in the case of a fixed-income account, the account may be subject to sequencing delays in meeting client directed brokerage requests, consequently impacting the Advisor's ability to achieve best execution for the clients making such requests. This, in turn, may cause clients to incur higher charges. In other words, clients may have to give up certain benefits that the Advisor may have received for its non-directed accounts.

## **Trade Aggregation**

The Advisor may, but is not required to, aggregate or "bunch" orders for client accounts at times when the Advisor believes that such aggregation will result in more favorable overall execution. Client accounts for which the Advisor may aggregate orders may include accounts in which the Advisor, its officers, employees and its related persons have a financial interest. Orders for the same security may be aggregated to facilitate best execution and to reduce costs, particularly brokerage commissions.

The Advisor effects aggregated transactions in a manner designed to ensure that all clients are treated fairly. For example, each client that participates in an aggregated transaction will receive the average share price for that security on that day with respect to the aggregated order. Typically (and when possible), securities that are purchased or sold in aggregated transactions are allocated on a *pro rata* basis to the participating accounts in proportion to the size of the order. However, the Advisor has instituted trade allocation policies and procedures designed to identify circumstances under which it is appropriate to use other methods of allocating trades. For example, an account that specializes in a particular type of security may receive an increased allocation if the security matches the account's investment objective or focus. On the other hand, new accounts may be given priority during their initial investment stage. Additionally, if a standard allocation would result in an account receiving a very small allocation because of its smaller asset size, or if the Advisor is unable to fully execute an aggregated order and determines that it would be impractical to allocate a small number of securities among the participating accounts on a *pro rata* basis, the Advisor may allocate such securities in a manner that it determines in good faith to be a fair allocation. In some instances, the size of the position or the price received by the client may be adversely affected by aggregating orders when compared with the position size or price that would have been received had no aggregation occurred.

Generally, if a client instructs the Advisor to direct brokerage commissions from the client's account to a particular broker to execute transactions, that client will not participate in aggregated orders and may not obtain reduced commission rates. Rather, the client will be charged the commission rate negotiated between the client and its directed broker.

### **ITEM 13: REVIEW OF ACCOUNTS**

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The Advisor periodically reviews client accounts. Account reviews depend on the arrangements made with each client based on the asset composition and asset size of the client's portfolio, as well as the nature of the services provided to the client. The Advisor generally reviews client accounts on a quarterly basis, but reviews also may be made monthly.

A review may relate to an entire portfolio, specific portions of the portfolio, or specific transactions or investments. Additional reviews may be triggered by various events including changes in market conditions, changes in a client's investment strategy or investment objective, personal events affecting a client, and other circumstances.

The investment professional directly responsible for the account relationship will participate in the review which may include other professionals within the firm. Rudolf Millisits, President and Chief Financial Officer, is primarily responsible for conducting account reviews. Mr. Millisits may consult, in preparation for a review, with Philippe Comby, Chief Investment Officer and Senior Vice President of the Advisor. Mr. Comby, however, does not participate directly in reviews of client accounts.

Instructions relating to performance with respect to timing, level and scope of reviews will be determined by the above persons in light of the particular needs and arrangements made with each client. Reviews will encompass comprehensive evaluations of performance to date, including past transactions, policies and strategies, and future policies, strategies and tactics.

Reports to clients will be determined in accordance with the specific needs of each client. The Advisor generally will provide oral reports monthly and will provide written reports discussing the investment performance of the client's account upon request. Along with these reports, the Advisor delivers to each client a statement of the assets held in the client's account and a description of each asset, including cost and current market values. The Advisor may provide more frequent reports to both discretionary and non-discretionary accounts which trade securities each day. In addition to providing these oral and/or written reports, the Advisor generally meets with clients at least annually, or more frequently upon request, to review investment strategy, performance and administrative matters.



#### **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

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The Advisor does not receive any economic benefits from any person who is not a client for providing investment advice or other advisory services to its clients.

The Advisor does not presently intend to pay any affiliated or unaffiliated person for client referrals; however, it reserves the right to pay for client referrals in accordance with Rule 206(4)-3 under the Advisers Act. Generally, payments under such arrangements would consist of a cash payment computed as a percentage of the referred client's advisory fee, although other methods of computation could be used.

## **ITEM 15: CUSTODY**

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Client assets are maintained at an independent, third-party custodian, so the Advisor does not maintain direct custody of its clients' assets. However, under Rule 206(4)-2 under the Advisers Act, "custody" is broadly defined to also include holding indirectly client funds or securities, or having any authority to obtain possession of them. In particular, the Advisor is considered to have indirect custody because the Advisor is authorized under its advisory agreements with those clients to make withdrawals from client accounts to pay its advisory fee.

In order to avoid any conflict of interest that indirect custody of client assets may cause, in accordance with Rule 206(4)-2, the Advisor makes due inquiry in order to have a reasonable basis to believe that the third-party custodian sends an account statement, at least quarterly, to each client, identifying the amount of funds and of each security in the account at the end of the period and setting forth all transactions in the account during that period. Clients should carefully review the account statements that they receive from their third-party custodian, and they are urged to compare those account statements with the account statements that they receive from the Advisor.

## **ITEM 16: INVESTMENT DISCRETION**

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The Advisor generally has the discretionary authority to make all investment decisions on behalf of its clients regarding the purchase and sale of securities, the broker or dealer to be used and the commission rate paid. Clients, however, may elect to maintain some or complete discretionary authority over their accounts. In a non-discretionary relationship, the Advisor customarily makes periodic investment recommendations to the client involving the purchase and sale of securities. In adopting such recommendations, the clients may request that the Advisor place orders for the purchase or sale of those securities and permit the Advisor to select the executing brokers, or the client may direct such transactions to specified brokers. For additional information about the Advisor's brokerage practices, please see Item 12 herein.

## ITEM 17: VOTING CLIENT SECURITIES

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The Advisor, unless otherwise directed, will vote client securities on behalf of its clients. As such, the Advisor has adopted proxy voting policies and procedures pursuant to Rule 206(4)-6 under the Advisers Act. Specifically, the Advisor has adopted Proxy Voting Guidelines (the "Voting Guidelines") that provide as follows:

- The Advisor votes proxies in respect of a client's securities in the client's best economic interests and without regard to the interests of the Advisor or any other client of the Advisor.
- Unless the Advisor's Proxy Voting Committee (the "Committee") otherwise determines (and documents the basis for its decision) or as otherwise provided below, the Advisor votes proxies in a manner consistent with the Voting Guidelines.
- To avoid material conflicts of interest, the Advisor applies the Voting Guidelines in an objective and consistent manner across client accounts. Where a material conflict of interest has been identified and the matter is covered by the Voting Guidelines, the Committee votes in accordance with the Voting Guidelines. Where a conflict of interest has been identified and the matter is not covered in the Voting Guidelines, the Committee will disclose the conflict to the client and advise the client that its securities will be voted only upon the client's written direction.
- The Advisor also may determine not to vote proxies in respect of securities of any issuer if it determines it would be in its clients' overall best interests not to vote.

The Advisor's Voting Guidelines address how it will vote proxies on particular types of matters such as elections for directors, adoption of option plans and anti-takeover proposals. For example, the Advisor generally will:

- support management in most elections for directors, unless the board gives evidence of acting contrary to the best economic interests of shareholders;
- support option plans, if it believes that they provide for their administration by disinterested parties and provide incentive to directors, managers and other employees by aligning their economic interests with those of the shareholders while limiting the transfer of wealth out of the company; and
- oppose anti-takeover proposals unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.

Clients of the Advisor can obtain a copy of the Voting Guidelines or information on how the Advisor voted their proxies by contacting the Advisor, 1270 Avenue of the Americas, Suite 400, New York, New York 10020.

**ITEM 18: FINANCIAL INFORMATION**

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Not Applicable.