

**Part 2A of Form ADV:  
Firm Brochure**

**March 12, 2014**



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**This brochure provides information about the qualifications and business practices of Chatterton & Associates, the Wealth Management Team, Inc. If you have any questions about the contents of this brochure, please contact by telephone at (714) 572-2050 or email at [tami@chattertoninc.com](mailto:tami@chattertoninc.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.**

**Additional information about Chatterton & Associates, the Wealth Management Team, Inc also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Please note that the use of the term “registered investment adviser” and description of Chatterton & Associates, the Wealth Management Team, Inc and/or our associates as “registered” does not imply a certain level of skill or training. You are encouraged to review this Brochure and Brochure Supplements for our firm’s associates who advise you for more information on the qualifications of our firm and our employees.**

## **Item 2. Material Changes**

This Item discusses material changes that have been made to our Firm Brochure (“Brochure”) since the date of our last annual updating amendment. Our last annual update was filed on March 26, 2013. While we do not consider it a material change, we did significantly enhance upon the formatting of the brochure. In addition, the following is a summary of our material changes since March 2013.

- Provided information regarding a tax preparation benefit that is offered to certain clients. (Item 4)
- Updated the value of our assets under management. (Item 4)
- Clarified that our advisory fees are negotiable. (Item 5)
- Enhanced our description of our methods of analysis, investment strategies and risk of loss. (Item 8)
- Disclosed Robert Chatterton’s ownership and involvement with Planning You Can Trust, as well as an office sharing arrangement with the Law Office of James F. Roberts & Associates, APC. (Item 10)
- Disclosed an office sharing arrangement with Grandfield Tax & Business Services, Inc. (Item 10)
- Clarified our brokerage practices, custodial relationships, and related conflicts of interest. (Item 12)
- Disclosed the receipt of reimbursements from SEI for marketing related expenses. (Item 12 and Item 14)
- Provided information regarding potential compensation we may receive from Royal Alliance. (Item 14)

### **Item 3. Table of Contents:**

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#### **Item 4. Advisory Business**

We are dedicated to providing individuals and other types of clients with a wide array of investment advisory services. Our firm is a corporation formed in the State of California. Our firm has been in business as an investment adviser since 2004 and is owned 100% by Robert D. Chatterton.

We offer the following advisory services:

##### **Asset Management:**

We offer management services based on the individual needs of the client. Understanding your personal situation is very important to the services we provide. Therefore, we will have detailed discussions with you to understand your current financial situation and investments, goals, risk tolerance and investment objectives. The investment objective you select will guide us in managing your account.

Our firm recommends that certain clients allocate investment assets among the various mutual fund asset allocation models, underlying mutual funds, and/or independent investment manager programs offered through SEI Investments Company (“SEI”). SEI is a global asset management company and sponsor of its own proprietary mutual funds. SEI Private Trust Company (“SEI Trust”), a subsidiary of SEI, serves as custodian for each SEI account (SEI and SEI Trust collectively referred to as “SEI”). SEI provides each client with reporting services, including consolidated monthly statements, quarterly performance reports, and year-end tax reports. SEI enables investment advisers such as our firm to offer its clients mutual fund asset allocation models, underlying individual mutual funds, and investment management programs that are not otherwise available to the general public. As part of its overall investment management program, SEI offers quarterly rebalancing of each client’s investment assets for the purpose of maintaining the assets in accordance with the client’s previously designated percentage (%) asset allocations for the SEI account, if elected by the client. If a client desires automatic account rebalancing, he/she must first provide such authorization directly to our firm, who will then advise SEI accordingly. Our firm shall not remove clients’ account from SEI to another program without the client’s consent. The fees charged by SEI are exclusive of, and in addition to, our firm’s investment management fee. In addition to our firm’s investment management fee, the client, relative to all mutual fund purchases, shall also incur charges imposed at the mutual fund level (e.g., management fees and other fund expenses).

Our firm intends to primarily allocate investment management assets of our client accounts among various investment management programs offered through SEI Investments Company (“SEI”) and various independent investment managers on a non-discretionary basis, in accordance with the investment objectives of our client.

Clients with assets under management valued at over \$500,000 through Chatterton & Associates may receive up to \$2,000 paid toward the cost of tax preparation services through Grandfield Tax and Business Services, Inc. This service is provided as a courtesy, and may be altered or discontinued at our discretion.

In order for us to manage your assets, you will be required to enter into an investment advisory agreement with Chatterton & Associates and an agreement with SEI. The agreements will set forth the terms and conditions of our relationship, including the amount of your investment advisory fee. You will retain all rights of ownership on your account, including the right to withdraw securities or cash and vote proxies. In addition, you will also have the ability to impose restrictions on investing in certain securities or types of securities at the time you open an account.

As of December 31, 2013, we manage \$445,348,000 on a non-discretionary basis.

### **Item 5. Fees and Compensation**

Our firm's fees are billed on a pro-rata annualized basis quarterly in arrears based on the value of your account on the last day of the previous quarter according to the following schedule.

<u>Assets under management</u>	<u>Annual Percentage of assets charge:</u>
Under \$1,000,000	1.00%
\$1,000,001 - \$3,000,000	0.75%
\$3,000,001 - \$5,000,000	0.62%
Over \$5,000,000	0.50%

Fees are negotiable.

Upon client consent, management fees will be deducted from the client's managed account through a qualified custodian. The custodian will send statements at least quarterly showing all fees deducted from the clients accounts.

Clients will incur transaction charges for trades executed in their accounts. These transaction fees are separate from our fees and will be disclosed by the firm that the trades are executed through. Also, clients will pay the following separately incurred expenses, which we do not receive any part of: charges imposed directly by a mutual fund, index fund, or exchange traded fund which shall be disclosed in the fund's prospectus (i.e., fund management fees and other fund expenses).

We charge our advisory fees quarterly in arrears. If you wish to terminate our services, you need to contact us in writing and state that you wish to cancel the advisory agreement. Upon receipt of your letter of termination, we will proceed to close out your account and charge you a pro-rata advisory fee(s) for services rendered up to the point of termination.

Our advisors are also separately licensed as securities representatives of Royal Alliance Associates, Inc. In this capacity, our advisors may sell securities to clients and receive compensation in the form of commissions and 12b-1 fees or trails. You should be aware that the practice of accepting commissions for the sale of securities:

- 1) Presents a conflict of interest and gives our firm and/or our advisors an incentive to recommend investment products based on the compensation received, rather than on your needs. We generally address commissionable sales conflicts that arise:
  - a) when explaining to clients that commissionable securities sales creates an incentive to recommend products based on the compensation we and/or our advisors may earn and may not necessarily be in the best interests of the client;
  - b) when recommending commissionable mutual funds, explaining that “no-load” funds are available.
- 2) In no way prohibits you from purchasing investment products recommended by us through other brokers or agents which are not affiliated with us.

To the extent an advisor of the firm receives commissions with respect to a transaction in an SEI account we reduce or waive our advisory fees to offset any commissions on stock sales incurred.

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

We do not charge performance fees to our clients (fees based on a share of capital gains on or capital appreciation of the assets of a client).

#### **Item 7. Types of Clients and Account Requirements**

We have the following types of clients:

- Individuals;
- High Net Worth Individuals; and
- Pension and Profit Sharing Plans.

We require a minimum account balance of \$200,000 for our asset management service. Generally, this minimum account balance requirement is not negotiable and would be required throughout the course of the client’s relationship with our firm.

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

The following outlines the types of investment strategies and methods of analysis that will be used in managing your account. It is important to keep in mind that there is no specific approach to investing that guarantees success or positive returns; investing in securities involves risk of loss that clients should be prepared to bear.

We take a top down approach by evaluating global economies and capital markets. We then try to take a closer look at sectors and industries to see where we can find a competitive edge with the goal to reduce portfolio risk. We also take a broad look at assets classes and then try to determine which asset classes we believe may outperform/underperform under current economy/financial conditions/interest rates, etc. We lastly take a look at the client’s investment objectives (liquidity, investment time-frame, client risk tolerance and income demands) and financial goals to determine an appropriate asset allocation.

We do not engage in active or short-term trading when managing accounts. Our goal is to construct a portfolio using an appropriate mix of investments consistent with your investment objective, and then monitor the account. Accounts are typically set up so that SEI will rebalance the accounts as necessary when the percentages of certain holdings exceed or fall below target allocations.

Our goal is to take a comprehensive financial planning approach that encompasses investments, income taxes, retirement income, insurance and protection, and estate planning. We start by gathering the essential data; we then try to establish goals and objectives with the client. We attempt to match the client's goals, risk tolerance and cash flow needs with a suitable investment allocation. Through our regular meetings, we will continually monitor the client's objectives and adjust the portfolio based on any changes that may take place.

We generally use the following types of investment vehicles within asset management accounts: mutual funds (including asset allocation funds, index funds, international funds, emerging market funds, real estate funds, and high yield bond funds), individual stocks and bonds. The particular investments selected for your account will depend upon your investment objective, level of risk tolerance, sensitivity to taxes, and other factors.

There are risks associated with investing in securities. The following highlights some of the risks associated with the types of investments that may be purchased for your account:

- Investing in international markets presents additional risks including currency fluctuations, the potential for diplomatic and political instability, regulatory and liquidity risks and foreign taxation among others. The risks of foreign investing are generally greater in emerging markets.
- High yield bonds carry greater risks than bonds rated as investment grade. For example, they are issued by organizations that do not qualify for an investment grade rating by one of the rating agencies because of the potential for higher default by the issuer. Another risk is that further financial difficulties by the issuer may result in a decrease in the market value, and this may make it impossible to liquidate the bond prior to maturity.

We generally invest client's cash balances in money market funds, FDIC Insured Certificates of Deposit, high-grade commercial paper and/or government backed debt instruments. Ultimately, we try to achieve the highest return on our client's cash balances through relatively low-risk conservative investments. In most cases, at least a partial cash balance will be maintained in a money market account so that our firm may debit advisory fees for our services related to asset management service, as applicable.

We use a variety of sources of data to conduct our economic, investment and market analysis, such as financial newspapers and magazines, economic and market research materials prepared by others, conference calls hosted by mutual funds, corporate rating services, annual reports, prospectuses, and company press releases.

**Please note:** Investing in securities involves risk of loss that clients should be prepared to bear. While the stock market may increase and your account(s) could enjoy a gain, it is also possible

that the stock market may decrease and your account(s) could suffer a loss. It is important that you understand the risks associated with investing in the stock market, are appropriately diversified in your investments, and ask us any questions you may have.

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

We are required to disclose whether there are legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. We have determined that our firm and management have nothing to disclose under the aforementioned standard.

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

Our firm is only in the business of providing investment advice as described above. However, as also noted above, our advisors are registered representatives of Royal Alliance Associates, Inc. In this capacity our advisors can sell securities and receive normal and customary compensation in the form of commissions. A conflict of interest may arise as these commissionable securities sales may create an incentive to recommend products based on the compensation our firm may earn and may not necessarily be in the best interests of the client. In order to minimize this conflict of interest, our firm will place client interests ahead of its own interests and adhere to our firm's Code of Ethics as well as clearly explaining this conflict when recommending any such products to clients. Clients are not obligated to purchase these products. For more information, refer to Item 5 – Fees and Compensation.

Our representatives may also be an insurance agent licensed with the California Division of Insurance, in which they may offer advice and products on life insurance. Any such insurance-related services shall be provided under the licensure name of Chatterton & Associates.

A conflict of interest may arise as these commissionable insurance product sales may create an incentive to recommend products based on the compensation our firm may earn and may not necessarily be in the best interests of the client. In order to minimize this conflict of interest, our firm will place client interests ahead of its own interests and adhere to our firm's Code of Ethics as well as clearly explaining this conflict when recommending any such products to our clients. Clients are not obligated to purchase these products.

Robert Chatterton is also an 80% owner of Planning You Can Trust, a marketing firm. Planning You Can Trust is co-owned by James F. Roberts, an estate planning attorney. Our firm also has an office sharing arrangement with the Law Offices of James F. Roberts. Employees of Planning You Can Trust will contact our clients to make them aware of seminars and other events that may be of interest. This may present a conflict of interest in that our clients may be introduced to the estate planning attorney for receipt of services, and the estate planning attorney may refer clients to our firm. This cross marketing benefits our firm. This conflict of interest is addressed by making clients aware of the conflict through this disclosure. Please note that Mr. Roberts also acts as a Solicitor for our firm. Please see Item 14 Client Referrals and Other Compensation, for further information.



Our firm also has an office sharing arrangement with Grandfield Tax and Business Services, Inc. (“Grandfield”). As stated previously, clients with assets under management valued at over \$500,000 through Chatterton & Associates may receive up to \$2,000 paid toward the cost of tax preparation services through Grandfield. While this service is provided as a courtesy, and may be altered or discontinued at our discretion, it represents a conflict of interest in that our clients may be introduced to Grandfield for receipt of services. As a result of this referral, Grandfield may also refer clients to our firm. This cross marketing benefits our firm. This conflict of interest is addressed by making clients aware of the conflict through this disclosure. Please note that employees of Grandfield also act as Solicitors for our firm. Please see Item 14 Client Referrals and Other Compensation, for further information.

#### **Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

We recognize that the personal investment transactions of members and employees of our firm demand the application of a high Code of Ethics and require that all such transactions be carried out in a way that does not endanger the interest of any client. At the same time, we believe that if investment goals are similar for clients and for members and employees of our firm, it is logical and even desirable that there be common ownership of some securities.

Therefore, in order to prevent conflicts of interest, we have in place a set of procedures (including a pre-clearing procedure) with respect to transactions effected by our members, officers and employees for their personal accounts<sup>1</sup>. In order to monitor compliance with our personal trading policy, we have a quarterly securities transaction reporting system for all of our associates.

Furthermore, our firm has established a Code of Ethics which applies to all of our associated persons. An investment adviser is considered a fiduciary. As a fiduciary, it is an investment adviser’s responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each of our clients at all times. We have a fiduciary duty to all clients. Our fiduciary duty is considered the core underlying principle for our Code of Ethics which also includes Insider Trading and Personal Securities Transactions Policies and Procedures. We require all of our advisors to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times. Upon employment or affiliation and at least annually thereafter, all advisors will sign an acknowledgement that they have read, understand, and agree to comply with our Code of Ethics. Our firm and advisors must conduct business in an honest, ethical, and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all clients. This disclosure is provided to give all clients a summary of our Code of Ethics. However, if a client or a potential client wishes to review our Code of Ethics in its entirety, a copy will be provided promptly upon request.

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<sup>1</sup> For purposes of the policy, our associate’s personal account generally includes any account (a) in the name of our associate, his/her spouse, his/her minor children or other dependents residing in the same household, (b) for which our associate is a trustee or executor, or (c) which our associate controls, including our client accounts which our associate controls and/or a member of his/her household has a direct or indirect beneficial interest in.

Related persons of our firm may buy or sell securities and other investments that are also recommended to clients. In order to minimize this conflict of interest, our related persons will place client interests ahead of their own interests and adhere to our firm's Code of Ethics, a copy of which is available upon request.

Related persons of our firm may buy or sell securities for themselves at or about the same time they buy or sell the same securities for client accounts. In order to minimize this conflict of interest, our related persons will place client interests ahead of their own interests and adhere to our firm's Code of Ethics, a copy of which is available upon request. Further, our related persons will refrain from buying or selling the same securities within 48 hours of buying or selling for our clients. If related persons' accounts are included in a block trade, our related persons will always trade personal accounts last.

### **Item 12. Brokerage Practices**

We seek to recommend a custodian/broker who will hold your assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others, these:

- Ability to maintain the confidentiality of trading intentions
- Timeliness of execution
- Timeliness and accuracy of trade confirmations
- Liquidity of the securities traded
- Willingness to commit capital
- Ability to place trades in difficult market environments
- Research services provided
- Ability to provide investment ideas
- Execution facilitation services provided
- Record keeping services provided
- Custody services provided
- Frequency and correction of trading errors
- Ability to access a variety of market venues
- Expertise as it relates to specific securities
- Financial condition
- Business reputation

In order to receive mutual fund asset allocation services with SEI, clients are required to select SEI as the custodian for the assets. While we believe that SEI has execution procedures that are designed to obtain the best execution possible, there can be no assurance that best execution can be obtained.

For clients conducting business through an SEI independent investment manager program, the choice of custodian and broker/dealer is the responsibility of SEI or the portfolio manager.

In cases where clients are requesting a purchase or an unsolicited sale of a previously held individual stock position, all such transactions are executed through Pershing LLC ("Pershing").

As previously described, our advisors are also registered representatives of Royal Alliance, a FINRA registered broker-dealer. In order to meet its FINRA supervisory obligations, Royal Alliance requires that all individual stock transactions that we conduct are processed through Royal Alliance's clearing relationships with Pershing. We believe that Pershing's blend of execution services, commission and transaction costs as well as professionalism will allow us to seek best execution and competitive prices.

Royal Alliance also makes certain research and brokerage services available at no additional cost to our firm. These services include research services obtained by Royal Alliance directly from independent research companies, as selected by our firm (within specific parameters). Research products and services provided by Royal Alliance to our firm may include research reports on recommendations or other information about, particular companies or industries; economic surveys, data and analyses; financial publications; portfolio evaluation services; financial database software and services; computerized news and pricing services; quotation equipment for use in running software used in investment decision-making; and other products or services that provide lawful and appropriate assistance by Royal Alliance to our firm in the performance of our investment decision-making responsibilities. The aforementioned research and brokerage services are used by our firm to manage accounts. Without this arrangement, our firm might be compelled to purchase the same or similar services at our own expense.

As a result of receiving these services for no additional cost, we may have an incentive to continue to use or expand the use of Royal Alliance's services. Our firm examined this potential conflict of interest when we chose to enter into the relationship with Royal Alliance and we have determined that the relationship is in the best interest of our firm's clients and satisfies our client obligations, including our duty to seek best execution.

Royal Alliance charges commissions for individual equity and debt securities transactions. Royal Alliance's commission rates are generally discounted from customary retail commission rates. However, the commission charged by Royal Alliance may be higher or lower than those charged by other custodians and broker-dealers.

Our clients may pay a commission to Royal Alliance that is higher than another qualified broker dealer might charge to effect the same transaction where we determine in good faith that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although we will seek competitive rates, to the benefit of all clients, we may not necessarily obtain the lowest possible commission rates for specific client account transactions.

In addition, Royal Alliance also makes available to our firm products and services that help manage and administer clients' accounts. These include software and other technology (and related technological training) that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution, provide research, pricing information and other market data, facilitate payment of our fees from clients' accounts, and assist with back-office training and support functions, recordkeeping and client reporting.

SEI may provide varying annual budget for printing costs on seminars. Many of these services generally may be used to service all or some substantial number of our accounts, including accounts not maintained at Royal Alliance. While, as a fiduciary, our firm endeavors to act in our clients' best interests, our recommendation/requirement that clients maintain their assets in accounts at SEI may be based in part on the benefit to our firm of the availability of some of the foregoing products and services and other arrangements and not solely on the nature, cost, or quality of custody and brokerage services provided by SEI, which may create a potential conflict of interest.

We would have to obtain the aforementioned services and products for cash if we did not receive them from Royal Alliance and/or SEI. As a result of receiving such products and services for no cost, we may have an incentive to continue to place client trades through Pershing as required by Royal Alliance, or SEI. This interest conflicts with the clients' interest of obtaining the lowest commission rate available. Therefore, we must determine in good faith, based on the best execution policy stated above that such commissions are reasonable in relation to the value of the services provided by such executing broker-dealers.

We may periodically receive reimbursements from SEI for marketing related expenses in order to assist us in marketing the advisory services offered by SEI. These marketing related activities may include, but are not necessarily limited to, client communications, brochures, seminars and other client events. This presents conflict of interest in that we have a financial incentive to recommend that you maintain your account with SEI. However, to the extent we recommend you use SEI for such services; it is because we believe that it is in your best interest to do so based on the quality and pricing of the executions, benefits of an integrated platform, and other services provided by SEI.

We do not have discretionary authority in making the determination of the brokers with whom orders for the purchase or sale of securities are placed for execution, and the commission rates at which such securities transactions are effected. We routinely recommend that a client directs us to execute through a specified broker-dealer. Our firm recommends the use of Royal Alliance/SEI.

Given the non-discretionary nature of our asset management services, we do not aggregate the purchase or sale of securities for client accounts.

### **Item 13. Review of Accounts**

We review client accounts at least annually. The nature of these reviews is to learn whether clients' accounts are in line with their investment objectives, appropriately positioned based on market conditions, and investment policies, if applicable. Only our advisors will conduct reviews.

We may review client accounts more frequently than described above. Among the factors which may trigger an off-cycle review are major market or economic events, the client's life events, requests by the client, etc.

We do not provide written reports to clients, unless asked to do so. Performance reports may be available to clients. Verbal reports to clients take place on at least an annual basis when we meet with clients who subscribe to our asset management service.

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

As a result of our relationship with Royal Alliance, we may receive production bonuses and other things of value such as free or reduced-cost attendance at Royal Alliance's national sales conference or top producer forums and events. Such compensation may be based on overall business produced and/or on the amount of assets serviced. Thus, there is a financial incentive for us to recommend that you establish an SEI account so that we will be compensated. We take our responsibilities to clients very seriously and we will only recommend that clients hire us for management services if we believe it is appropriate and in the client's best interests.

We also receive an economic benefit from SEI of a reimbursement for marketing related expenses. Please see detailed discussion of the categories of marketing related expenses and potential conflicts of interest in Item 12 Brokerage Practices.

We may pay referral fees to unaffiliated third parties (Solicitors) equal to a percentage of the advisory fees collected from clients that Solicitors referred to our advisors. Clients are provided with a written disclosure outlining the specific terms, compensation arrangements and obligations of the Solicitor and our advisors.

#### **Item 15. Custody**

We do not have custody of client funds or securities. Custody for all assets is maintained at SEI, a qualified custodian. All of our clients receive at least quarterly account statements directly from their custodians. We encourage you to carefully review these statements upon receipt. If we decide to also send account statements to clients, such notice and account statements include a legend that recommends that the client compare the account statements received from the qualified custodian with those received from our firm.

We encourage our clients to raise any questions with us about the custody, safety or security of their assets.

#### **Item 16. Investment Discretion**

We do not take or exercise discretionary authority with respect to our client's accounts.

#### **Item 17. Voting Client Securities**

We do not and will not accept the proxy authority to vote client securities. Clients will receive proxies or other solicitations directly from their custodian or a transfer agent. In the event that proxies are sent to our firm, we will forward them on to you and ask the party who sent them to mail them directly to you in the future. Clients may call, write or email us to discuss questions they may have about particular proxy votes or other solicitations.

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

We are required to provide clients with certain information or disclosures about our financial condition. We have no financial commitment that impairs our ability to meet contractual or fiduciary commitments to clients, and we have not been the subject of a bankruptcy petition.