



**Stonebridge Advisors LLC**  
**Form ADV Part 2A – Firm Brochure**  
**March 16, 2015**

This brochure provides information about the qualifications and business practices of Stonebridge Advisors LLC (“Stonebridge” or the “Firm”). If you have any questions about the contents of this brochure, please contact Stonebridge at 1-203-762-0004. 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.

Stonebridge is an investment adviser registered with the SEC under the Investment Advisers Act of 1940. Registration as an investment adviser does not imply any level of skill or training.

A copy of this brochure and additional information about the Firm is also available on the SEC’s website: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

187 Danbury Road  
Wilton, CT 06897  
1-203-762-0004  
[www.stonebridgeft.com](http://www.stonebridgeft.com)

## Item 2 – Material Changes

In this Item 2, we summarize material changes and other noteworthy events that have been made to Stonebridge’s March 25, 2014 Brochure.

On, March 25, 2014, Stonebridge began to serve as a non-discretionary sub-advisor to the First Trust Multi Income Allocation Portfolio (“VIT2”), a newly-organized variable annuity fund that is the second series of the First Trust Variable Insurance Trust. VIT2’s primary investment objective is to maximize current income, with a secondary objective of capital preservation.

On July 25, 2014, Stonebridge began to serve as a non-discretionary sub-advisor to the First Trust Strategic Income ETF, a series of the First Trust Exchange-Traded Fund, under an agreement whereby Stonebridge provides model portfolios to this fund.

For each of the Separately Managed Account (SMA) strategies described in Item 4 of this Brochure, Stonebridge may invest up to 8% of a client’s portfolio in closed-end funds (CEFs), registered open-ended investment companies (OEFs) or exchange-traded funds (ETFs), including the OEF and the ETF managed by Stonebridge, that are either primarily invested in preferred securities or in cash equivalents (such as ETFs that invest in short-term treasuries). No more than 5% of the portfolio will be invested in any single such vehicle. If this is done, clients need to be aware that the underlying CEF, OEF or ETF (including the Stonebridge-managed OEF and ETF) may charge additional investment management fees that are separate and distinct from the investment management fees charged by Stonebridge.

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#### **Item 4 – Advisory Business**

Stonebridge specializes in providing discretionary investment management services and portfolio supervisory services to fixed income and equity portfolios as further described below. Although we may make reference to the tax characteristics of certain securities in connection with some of our strategies, we do not provide tax advice. Clients or prospective clients needing tax advice should contact their personal tax consultant(s).

Stonebridge was founded in December 2004 and is primarily owned by First Trust Portfolios L.P. (“FTP”) and Stonebridge Asset Management, LLC. As of December 31, 2014, Stonebridge had total assets under management and supervision/advisement of \$3.47 Billion, \$3.46 Billion of which were managed on a discretionary basis, while \$9.54 Million was supervised/advised on a non-discretionary basis.

#### **Portfolio Supervision for Unit Investment Trusts (“UITs”)**

First Trust Advisors L.P. (“FTA”), a registered Investment Advisor and an affiliate of Stonebridge, is the sponsor and portfolio supervisor of the First Trust series of unit investment trusts. Each UIT is an investment company registered under the Investment Company Act of 1940. Certain of these UITs invest exclusively in preferred stocks and trust preferred securities and other securities closely followed by Stonebridge. Stonebridge has assumed the role of sub-portfolio supervisor for these UITs. In this role, we monitor the portfolios of the UITs, and notify FTA if, based on specific criteria provided by FTA, we think that certain securities should be removed from a UIT. Our authority is limited to providing our opinion to FTA within the boundaries described, and we do not have discretion over investment decisions of the UITs. Accordingly, the asset totals described as “supervised/advised on a non-discretionary basis” above refer to these UITs.

#### **Investment Management for the FT Preferred Securities and Income Fund (“FPEAX”)**

Stonebridge serves as the sub-advisor to the First Trust Preferred Securities and Income Fund (FPEAX), a series of the First Trust Series Fund (an open-end investment company registered with the SEC under the Investment Company Act of 1940). FPEAX seeks to provide current income and total return by investing, under normal market conditions, at least 80% of its net assets (including investment borrowings) in preferred securities and other securities with similar economic characteristics. Securities with economic characteristics similar to preferred securities include certain debt instruments typically issued either by a corporation, generally in the form of interest bearing notes, or by an affiliated business trust of a corporation, generally in the form of (i) beneficial interests in subordinated debentures or similarly structured securities or (ii) more senior debt securities that pay income and trade in a manner similar to preferred securities. FPEAX may also invest in more traditional corporate debt securities and U.S. government securities, and may utilize hedging strategies solely to attempt to mitigate risk. For complete information please consult the First Trust Preferred Securities and Income Fund prospectus and associated documents.

### **Investment Management for the FT Preferred Securities and Income ETF (“FPE”)**

Stonebridge serves as the sub-advisor to the First Trust Preferred Securities and Income ETF (FPE), a series of the First Trust Series Fund, an exchange-traded fund organized as a separate series of the First Trust Exchange-Traded Fund III (a registered management investment company). FPE’s investment objective is to seek total return and to provide current income by investing, under normal market conditions, at least 80% of its net assets (including investment borrowings) in preferred securities and income producing debt securities. FPE invests in securities that are traded over-the-counter or listed on an exchange. For purposes of the 80% test, securities of open-end funds, closed-end funds or other exchange-traded funds registered under the Investment Company Act of 1940 that invest primarily in preferred or income securities are deemed to be preferred or income securities. For complete information please consult the First Trust Preferred Securities and Income ETF prospectus and associated documents.

### **Investment Management for the FT Intermediate Duration Preferred and Income Fund (“FPF”)**

Stonebridge serves as the sub-advisor to the First Trust Intermediate Duration Preferred & Income Fund (FPF), a non-diversified, closed-end investment company. The Closed-End Fund's primary investment objective is to seek a high level of current income by investing in preferred and other income-producing securities, with a secondary objective of capital appreciation. FPF seeks to maintain, under normal market conditions, a blended (or weighted average) portfolio duration of between three and eight years. FPF invests at least 80% of its net assets (including investment borrowings) in preferred securities and income producing debt securities. FPF invests in securities that are traded over-the-counter or listed on an exchange. For complete information please consult the First Trust Intermediate Duration Preferred & Income Fund prospectus and associated documents.

### **Investment Management for the FT Multi Income Allocation Portfolio (“VIT2”)**

Stonebridge serves as a non-discretionary sub-advisor to the First Trust Multi Income Allocation Portfolio (VIT2), a variable annuity fund organized in 2014 that is the second series of the First Trust Variable Insurance Trust. VIT2’s primary investment objective is to maximize current income, with a secondary objective of capital preservation. For complete information please consult the VIT2 prospectus and associated documents.

### **Investment Management for the FT Strategic Income ETF**

Stonebridge serves as a non-discretionary sub-advisor to the First Trust Strategic Income ETF, a series of the First Trust Exchange-Traded Fund, under an agreement whereby Stonebridge provides model portfolios to this fund. The fund’s primary investment objective is to maximize current income, with a secondary objective of capital preservation. For complete information please consult the First Trust Strategic Income ETF prospectus and associated documents.

### **Investment Management for Separately Managed Accounts (“SMAs”)**

Stonebridge offers discretionary management services to separately managed accounts of preferred securities portfolios for individual and institutional investors and to non-profit organizations. We generally seek to maximize total return, with a particular emphasis on

income, in each client's selected strategy through strategic selection primarily of preferred, hybrid and other approved securities, including exchange-listed securities and over-the-counter traded securities. Securities are selected based on perceived relative value principally through fundamental and relative value analysis utilizing a variety of data sources including public filings (10Qs and 10Ks), research reports from rating agencies and brokerage firms, annual reports, prospectuses, Bloomberg analytics, etc.

Stonebridge generally makes changes to SMA portfolios before it makes changes to Unified Managed Account (UMA) model portfolios (described below), which are then provided to wrap fee program ("**WRAP**") sponsors for UMA accounts. This may be a factor in SMA clients experiencing different performance than UMA clients due to favorable or unfavorable market changes that may occur in the period between the implementation of the changes. All UMA and SMA strategies are managed in a long-only approach.

Stonebridge has developed the investment strategies described below to meet the different needs of our clients. Maximization of total return, income, and preservation of capital are common objectives of all the strategies. Our portfolio managers may deviate from the guidelines for any of the strategies in order to maximize total return or protect client account assets.

The portfolio managers may invest in a mix of different preferred security structures, hybrid securities, and other types of comparable investments approved by Stonebridge including, but not limited to, corporate bonds, convertible bonds and/or \$25 par baby bonds to help meet the investment strategies objectives. Also, a higher percentage of cash or cash equivalents may be considered for a strategy if market conditions dictate.

Stonebridge generally requires a minimum of \$250,000 of assets for separately managed accounts that are sponsored through an approved WRAP Program. We generally require a minimum of \$5 million of assets for custom strategies. We reserve the right to accept accounts below the stated minima in our sole discretion.

Although we manage tax-advantaged strategies (e.g. the QDI, DRD and NRA strategies described below), the tax advantages we seek are attributes of the securities we select and are unrelated to the individual clients' tax circumstances. We do not give tax advice to anyone. Clients should consult with qualified tax professionals concerning the tax treatment of their individual investment portfolios.

Not all strategies listed below are available on all WRAP Program platforms. Please check with your financial advisor to see if they offer a particular strategy. If you are investing through a WRAP Program, please check with your financial advisor to see if they offer a particular strategy.

Standard Taxable Preferred Securities Strategy seeks to maximize preferred income for investors by generally investing in preferred, hybrid and other approved securities that pay dividends and interest. This strategy offers a diversification alternative to corporate bonds

and other fully taxable fixed-income investments strategies. Investors looking to maximize income from diversified preferred security portfolio on a pre-tax basis would be well-suited for this strategy. Examples of typical investors are pension funds, endowments, foundations, and 401k or IRA accounts for high-net-worth individuals.

Tax-Advantaged QDI Preferred Securities Strategy allows individual investors (not corporations) to seek to maximize tax-advantaged preferred income in their portfolios by generally investing in tax-advantaged preferred, hybrid and other approved securities that pay Qualified Dividends Income (QDI)<sup>1</sup>. This strategy is a diversification alternative to Municipal Bonds and other tax-advantaged fixed income investment strategies. To increase diversification within this strategy we also invest in hybrid and other approved securities that may not pay dividend income that qualifies for QDI. Only individuals can claim tax benefits from investing in QDI securities, making this strategy well-suited for high net worth individual investors looking for tax-advantaged income from a diversified preferred security investment portfolio.

Tax-Advantaged DRD Preferred Securities Strategy allows C-corporations to seek to maximize tax-advantaged preferred income in their portfolios by generally investing in traditional preferred stocks that qualify for the Dividend Received Deductions (DRD)<sup>2</sup>. To increase diversification within this strategy we also invest in hybrid and other approved securities that may not pay dividend income that qualifies for DRD. This strategy is a diversified alternative to municipal bonds and other tax-advantaged fixed income investment strategies. Because C-corporations can claim tax benefits from investing in DRD preferred securities this strategy is well-suited for corporate investors seeking tax-advantaged income from a preferred security investment portfolio.

Non Resident Alien (NRA) Preferred Securities Strategy generally invests in preferred, hybrid and other approved securities whose interest payments or dividends have been identified by at least one of the major brokerage firms as appropriate for NRA investors. Stonebridge does not give individual tax advice with respect to any of its investment strategies, including this one. NRA investors should consult with a US tax expert to determine if they are required to report tax withholding to the US government for any of the income received from this strategy.

\* \* \*

Stonebridge will typically follow the investment guidelines for SMA account portfolios set forth below, and will consider adjustments as requested in writing by particular clients on a case-by-case basis. Client-requested adjustments will not be applied unless accepted by Stonebridge in

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<sup>1</sup> QDI currently allows favorable tax treatment for dividends from U.S. corporations and qualified foreign corporations on securities held for a minimum of 61 days, during the 120-day period beginning 60 days before the ex-dividend payment. The maximum QDI tax rate is 20%. This favorable tax treatment is only available to individual investors. An additional 3.8% Medicare surtax on investment income went into effect in 2013. Consult your tax advisor for details.

<sup>2</sup> Dividend Received Deduction (DRD) is a subset of QDI that allows C-corporations to deduct 70% of the qualifying dividend income from taxation as long as shares are held for a minimum of 46 days.

writing. The investment guidelines for separately managed preferred securities accounts are as follows:

- Stonebridge will typically invest client assets in securities of issuing firms (“**issuers**”) that have a long-term issuer credit rating of investment grade at the time of the investment. “**Investment grade**” is defined as having a long-term credit rating of “BBB-” or higher by Standard & Poor’s Rating Group (“S&P”), or “Baa3” or higher by Moody’s Investors Service, Inc. (“Moody’s”), or a comparable rating from another nationally-recognized statistical rating organization (“NRSRO”). We may also invest client assets in securities that are unrated by an NRSRO if we determine such securities to be of comparable credit quality. If a security receives divergent ratings from multiple NRSROs, Stonebridge will treat the issuing firm as being rated in the highest rating category received from any NRSRO. Stonebridge may invest in securities issued by below-investment-grade issuers or by unrated issuers, if our internal analysis leads us to conclude that a particular security has acceptable credit quality for the perceived relative value.
- The exposure of client portfolios to any one issuer will generally be 8% or less.

\* \* \*

Any investment guidelines or strategy changes provided by a client in writing and accepted by Stonebridge in writing take precedence over the above guidelines or strategies for that client’s account.

Stonebridge may employ hedging strategies to reduce interest rate risk for qualified accounts. The strategies may use derivatives including interest rate swaps, U.S. Treasury futures, Eurodollar futures, and put and call options on U.S. Treasury and Eurodollar futures, or open-end funds, closed-end funds or ETFs investing in similar instruments. Hedging is not applied to all accounts. If you are interested in employing hedging, please contact Stonebridge to see if your account is eligible to be included in hedging strategies.

For each of the SMA strategies described above, Stonebridge may invest up to 8% of a client’s portfolio in exchange-traded funds (ETFs), including FPE, closed-end funds (CEFs) and registered open-ended investment companies (OEFs), including FPEAX, that are either primarily invested in preferred securities or in cash equivalents (such as ETFs that invest in short-term treasuries). No more than 5% of the portfolio will be invested in any single such vehicle. If this is done, clients need to be aware that the underlying ETF (including FPE), CEF or OEF (including FPEAX) may charge additional investment management fees that are separate and distinct from the investment management fees charged by Stonebridge.

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We may also develop custom strategies not described herein for some clients. In such cases, a custom strategy description will be provided directly to the client.

### **Investment Management for Unified Managed Account Strategies (“UMAs”)**

Stonebridge offers UMA model portfolio strategies to certain WRAP account platform sponsors. These strategies may be used by the financial advisors that participate on such platforms with their advisory clients. When directed by contract, Stonebridge may also arrange for the execution of securities trades to implement the UMA strategies.



Stonebridge generally makes changes to UMA portfolios after it makes changes to SMA portfolios. This may be a factor in UMA clients experiencing different performance than SMA clients due to favorable or unfavorable market changes that may occur in the period between the implementation of the changes. All UMA and SMA strategies are managed in a long-only approach.

When there are changes to the portfolio model, we apply a rotation policy for distribution of the revised model in order to ensure equity of opportunities among the different UMA platforms. The current rotation policy is to distribute to all UMAs simultaneously. A random rotation may be implemented if in our judgment differences in the UMA sizes become such that they would begin to disturb markets or destructively interfere with one another's trading opportunities.

The investment guidelines for SMAs presented above also apply to our construction of UMA models unless a platform specifically requests otherwise. UMA platform providers may or may not choose to follow Stonebridge's recommendations. Please check with your UMA platform provider for details concerning your particular UMA platform.

### **Investment Management for Cash Equivalents and Other Short-Term Securities**

Stonebridge offers discretionary investment management services for cash equivalents and other short-term securities portfolios to high net worth individuals, institutional investors and non-profit organizations.

The strategy generally invests in short-term fixed income investments such as but not limited to corporate bonds, municipal bonds, commercial paper, preferred and hybrid securities, and Certificates of Deposit. Targeted duration is 1-3 years.

The selection of investments will be dependent upon clients' written investment guidelines. We seek to construct a diversified portfolio with securities that are rated investment grade by Moody's, S&P or other NRSROs. To the extent we invest in commercial paper, unless otherwise instructed we will only invest in commercial paper that is rated A-1, P-1 rated by Moody's, S&P or other NRSROs.

We generally require a minimum of \$10 million of assets for clients in the cash equivalent/short-term securities strategy, although we reserve the right to accept accounts below the stated minimum.

### **Other Factors Regarding Investment Management Services**

Stonebridge may utilize model portfolios as guidelines in managing separately managed client accounts in each of its preferred securities investment strategies. The models can change at any point in time based on our research, investment management decisions and outlook. We generally attempt to manage each client portfolio to the particular model for the client's chosen investment strategy. However, due to a number of reasons, some within and some beyond the control of Stonebridge, client portfolios will frequently not look exactly like the chosen model. For example, client investment restrictions may create dispersion in performance and securities holdings when compared to the model portfolio for the client's selected strategy.

Furthermore, due to security specific characteristics, it may not always be prudent or practical to sell or purchase an entire position in a short period of time. In such cases, Stonebridge will

use its professional judgment to bring the client's account in line with the model in a prudent manner.

There may also be situations where client portfolios may be temporarily unable to engage in certain securities transactions due to such things as restrictions on securities or systems or data issues at a client's WRAP program sponsor. In such cases, Stonebridge will begin effecting transactions for the affected accounts once it has been advised by the client's WRAP program sponsor that the issue(s) have been resolved.

Finally, a highly liquid market is the most conducive environment for trading client portfolios based on a model portfolio, but not all preferred, hybrid and other approved securities are highly liquid. Rather than systematically avoiding the inclusion of less liquid securities in our models, we may treat models as flexible guidelines; making what are in our judgment compatible investment decisions as market conditions present themselves. Because of this approach we do not make model portfolios available for public review.

#### **Item 5 – Fees and Compensation**

Stonebridge's fee schedule for SMAs and UMAs is generally as follows:

<b><u>Value of Portfolio</u></b>	<b><u>Annual Management Fee</u></b>
First \$25 million	0.40%
Next \$25 million	0.35%
Over \$50 million	negotiable

Our fee schedule for SMAs of cash equivalents and short-term securities is as follows:

<b><u>Value of Portfolio</u></b>	<b><u>Annual Management Fee</u></b>
Up to \$50 million	0.20%
Over \$50 million	0.15%

We reserve the right to deviate from the above schedules on a case-by-case basis.

Management fees for FPEAX, FPF, FPE, VIT2 and the First Trust Strategic Income ETF for which Stonebridge provides investment advice are disclosed in those funds' respective prospectuses.

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Stonebridge does not have custody of client assets. Therefore, our billing is primarily handled through our clients' custodians. We may bill the custodians for our advisory fees either in advance or in arrears, depending on the terms specified in the advisory contract. For clients associated with WRAP programs, the manner of billing is dependent upon the WRAP program sponsor.

Clients on a WRAP single contract platform (i.e. clients whose advisory contracts are only with the WRAP platform provider and not with Stonebridge directly) should examine their agreements with the WRAP program sponsor to determine the exact manner in which fees are assessed and billed by the WRAP program sponsor.

Clients on a dual-contract platform (i.e. clients whose advisory contracts are with both the WRAP platform provider and with Stonebridge), or clients that have single contracts directly with Stonebridge, should review their advisory contract with Stonebridge to determine the exact manner in which fees are assessed and billed.

When Stonebridge is responsible for assessing fees, if the method of billing is specified as “in arrears”, we will assess our management fees based on the market value of the client’s account at the end of the preceding calendar quarter. If the account has been under management for less than the full quarter, the fee will be prorated for the partial period. If we are unable to collect the account’s final fee payment by billing the client’s custodian (which most often occurs when a client’s custodial account has been terminated), we will bill the client directly for the final fee.

When Stonebridge is responsible for assessing fees, if the method of billing is specified as “in advance”, we will assess the first management fee based on the value of the assets when the account is first received, and then at the beginning of each subsequent calendar quarter based on the value of the assets in the account at the end of the preceding quarter. If the account will be under management for less than the full quarter, the fee will be prorated for the partial period. If the account is terminated prior to the end of the calendar quarter, the fee will be prorated to the termination date and either a bill for unpaid fees owed or a refund of the excess prepaid fee will be issued.

Cash management accounts are billed as described above, but generally fees are calculated based on the average daily market value of the account.

Stonebridge’s advisory fees for SMA are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which may be incurred by the client. Clients may incur charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange-traded funds also charge internal management fees, which are disclosed in those funds’ prospectuses. Such charges, fees and commissions are exclusive of, and in addition to, Stonebridge’s fee, and we do not receive any portion of these commissions, fees, and costs (except in those cases where a portion of a fund’s assets are invested in the ETF managed by Stonebridge).

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

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

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

#### **Item 7 – Types of Clients**

Stonebridge offers portfolio management services to individuals, high net worth individuals, insurance companies, banks, thrift institutions, investment companies, pension and profit-sharing plans, trusts, estates, charitable institutions, foundations, endowments, corporations and similar entities. Minimum account sizes are discussed in Item 4 above.

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

### Methods of Analysis:

Stonebridge's research and investment personnel review and study many types of research information and may attend investment seminars, conferences and private meetings with "Street" research analysts or company management, at which they receive market and economic information relevant to the management of client accounts. Our research and investment staff engage in several methods of analysis, including fundamental and technical assessments of securities.

### Investment Strategies:

The investment strategies used by Stonebridge are detailed in Item 4 above.

### Risk of Loss:

*General Investment and Trading Risks.* Investing involves a risk of loss that clients should be prepared to bear. Clients should be aware of the following risks, among others, which may be relevant to Stonebridge's management of client portfolios. No guarantee or representation is made that the firm's investment strategies will be successful.

*Strategy Risk.* Strategy risk is the potential for deterioration of the economic viability of an entire strategy. Strategy-specific losses can result from excessive concentration in the same investment approach or within a particular industry. General economic or political events can also adversely affect particular strategies (e.g., illiquidity within a given market).

*Credit Risk.* Credit risk is the risk that an issuer of a security will be unable or unwilling to make dividend, interest and principal payments when due, and the related risk that the value of a security may decline because of the concerns about the issuers ability to make such payments.

*Economic Conditions Risk.* The success of any investment activity will be affected by general economic conditions which affect the level and volatility of prices as well as the liquidity of the markets. The prices of many securities and derivative instruments are highly volatile. The price movements of the instruments which Stonebridge will acquire or sell short on behalf of its clients may be influenced by, among other things, interest rates, changing supply and demand relationships, the trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events. Governments from time to time intervene, directly and by regulation, in certain markets (particularly those in currencies and interest rates), thereby disrupting strategies focusing on these sectors. Unexpected changes (in either direction) in the volatility or liquidity of the markets in which clients hold positions could cause significant losses.

*Interest Rate Risk.* Interest rate risk is the risk that securities will decline in value because of rising market interest rates. When market interest rates rise, the market value of fixed rate securities, including preferreds, generally will fall. Currently, interest rates are at or near historical lows and, as a result, they are likely to rise over time.

*Preferred Securities Risk.* An investment in preferred securities involves risks not associated with an investment in common stocks. Particular risks include:

- **Limited Voting Rights.** Generally, holders of preferred securities have no voting rights with respect to the issuing company unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may elect a

number of directors to the issuer's board. Generally, once the issuer pays all the arrearages, the preferred security holders no longer have voting rights.

- **Special Redemptions Rights.** In certain circumstances, an issuer of preferred securities may redeem the securities prior to a specified date. For instance, for certain types of preferred securities, a redemption may be triggered by a change in federal income tax or securities laws. As with call provisions, a special redemption by the issuer may negatively impact the return on the security held by clients.
- **Deferral.** Preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to itself. If clients own a preferred security that is deferring its distributions, they may be required to report income for federal income tax purposes even though they have not yet received such income in cash.
- **Subordination.** Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure in terms of priority of rights to corporate income and liquidation payments, and therefore will be subject to greater credit risk than those debt instruments.
- **Liquidity.** Preferred securities may be substantially less liquid than many other securities, such as common stocks or U.S. government securities.

*Trust Preferred Securities Risk.* Unlike preferred stocks, distributions from trust preferred securities are treated as taxable interest rather than dividends for federal income tax purposes. Distributions on trust preferred securities will be made only if interest payments are made on the related interest-bearing notes of the operating company. Because a corporation issuing the interest-bearing notes may defer interest payments on these instruments for up to 20 consecutive quarters, if such an election is made distributions will not be made on the trust preferred securities during the deferral period. Further, certain tax or regulatory events may trigger the redemption of the interest-bearing notes by the issuing corporation and result in prepayment of the trust preferred securities prior to their stated maturity date.

*Fixed-Income Securities Risk.* The risks related to investments in fixed-income securities include the risk that certain of the securities may not have the benefit of covenants which would prevent the issuer from engaging in capital restructurings or borrowing transactions in connection with corporate acquisitions, leveraged buyouts or restructurings. This could reduce the ability of the issuer to meet its payment obligations and might result in increased credit risk. In addition, certain securities may be redeemed or prepaid by the issuer, resulting in lower interest payments received by clients.

*Issuer Specific Changes Risk.* The value of an individual security or particular type of security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole.

*Convertible Securities Risk.* Because convertible securities have characteristics of both equity and debt securities they are exposed to certain additional risks. The market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. A convertible security's market value also tends to reflect the market price of the common stock of the issuing company, particularly when the stock price is greater than the convertible security's conversion price (i.e., the predetermined price or exchange ratio

at which the convertible security can be converted or exchanged for the underlying common stock). Convertible securities are also exposed to credit risk. Due to their potential for capital appreciation, convertible securities generally offer lower interest or dividend yields than nonconvertible debt securities of similar credit quality.

Mandatory convertible securities are a subset of convertible securities. The conversion of such securities is not optional, and the conversion price at maturity is based solely upon the market price of the underlying common stock, which may be significantly less than par or the price (above or below par) paid. Mandatory convertible securities generally are subject to a greater risk of loss of value than securities convertible at the option of the holder.

*Derivatives Risk.* In certain circumstances, Stonebridge uses derivatives to hedge against interest rate risk. The use of derivatives presents risks different from, and possibly greater than, the risks associated with investing directly in traditional securities, including market risk, credit risk, management risk and liquidity risk. The use of derivatives can lead to losses because of adverse movements in the price or value of the underlying asset, index or rate, all of which may be magnified by certain features of the derivatives. In addition, when clients invest in certain derivative securities, including, but not limited to, forward commitments, when-issued securities, futures contracts and interest rate swaps, they are effectively leveraging their investments. This can result in exaggerated changes in the value of the client's portfolio which could result in significant losses.

The success of the Firm's derivatives strategies depends on its ability to assess and predict the impact of market or economic developments on the underlying asset, index or rate, and on the derivative itself. Liquidity risk exists when a security cannot be purchased or sold at the time desired, or cannot be purchased or sold without adversely affecting the price.

*Management Risk.* Clients are subject to management risk because their portfolios are actively managed. Stonebridge will apply investment techniques and risk analyses in making investment decisions for clients, but there can be no guarantee that clients will achieve their investment objectives.

*Dependence of Key Personnel Risk.* Stonebridge is dependent upon the experience and expertise of certain key personnel in providing advisory services to clients. If we were to lose their services, our ability to advise clients could be adversely affected. There can be no assurance that a suitable replacement could be found for key personnel in the event of their death, resignation, retirement or inability to act on behalf of Stonebridge.

*Inflation Risk.* Inflation risk is the risk that the value of assets or income from investments will be less in the future as inflation decreases the value of money. As inflation increases, the value of client's assets can decline.

Clients should be aware that each investment strategy offered by Stonebridge may not achieve its objectives under negative market conditions which could prevail for substantial periods of time after a client allocates assets to a particular strategy.

For information related to the risks of investments specific to investment companies for whom Stonebridge provides investment advice, please refer to the associated fund's prospectus.

### **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the integrity of the firm's management. Stonebridge has no information applicable to this Item.

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

Stonebridge's affiliations with broker-dealers, investment advisers and investment companies are as follows:

- As previously stated above in Item 4, Stonebridge is affiliated with First Trust Portfolios L.P. (FTP), a registered broker/dealer and the sponsor of the First Trust series of unit investment trusts. FTP has a controlling interest in Stonebridge.
- Stonebridge serves as sub-advisor to the First Trust Preferred Securities and Income Fund, the First Trust Preferred Securities and Income ETF, and the First Trust Intermediate Duration Preferred & Income Fund, and will serve as the First Trust Multi Income Allocation Portfolio.
- First Trust Advisors L.P. (FTA) is a registered investment adviser and an affiliate of FTP. FTA is under common control with FTP.
- Stonebridge Asset Management, LLC ("SAM") is private family office of Scott Fleming and a partial owner of Stonebridge. Mr. Scott T. Fleming is the Chief Executive Officer of Stonebridge and also the owner and Chief Executive Officer of SAM.
- BondWave LLC ("BondWave") is a registered investment adviser and is an affiliate of FTP. FTP has controlling interest in BondWave.
- First Trust Global Portfolios Limited ("FGTP") is an investment adviser registered in the United Kingdom.

The following directors or officers of Stonebridge are also officers or directors of First Trust and its affiliates, as described below:

- Mr. James A. Bowen is the Chairman of the Board of Stonebridge and BondWave, the Chief Executive Officer of FTP and FTA, and a Director of FGTP.
- Mr. Mark R. Bradley is the Chief Financial Officer of FTP, FTA, Stonebridge and BondWave, the Chief Operating Officer of FTP and FTA, and a Director of FGTP.
- Mr. W. Scott Jardine is the Secretary of Stonebridge, General Counsel of FTP and FTA and General Counsel and Corporate Secretary of BondWave.

### **Item 11 – Code of Ethics**

We have implemented a Code of Ethics containing policies and procedures, summarized below, to minimize activities of Stonebridge personnel that may create a conflict of interest with clients, and to disclose any conflicts that do exist.

Stonebridge does not buy or sell securities for its own account. Stonebridge employees may not buy or sell securities for their personal accounts which Stonebridge also recommends to its clients, unless pre-approved by the Chief Compliance Officer. Further, the Code of Ethics

prohibits an employee from participating in an Initial Public Offering of any security or to participate in private placement offerings without advance approval by the Chief Compliance Officer.

Under our Code of Ethics, Stonebridge employees are required to notify the Chief Compliance Officer of any account containing reportable securities over which they have a direct or indirect beneficial interest, and to arrange for the provision of duplicate confirmations and statements to the firm.

The Code of Ethics also requires each Stonebridge employee to provide the Chief Compliance Officer a list of securities held within ten days of hire and copies of account statements for each account through which he or she may invest in securities, such as a brokerage account, within 30 days of the end of each calendar quarter, to abstain from the unlawful use of material non-public information, and to certify annually that each has read, understands and agrees to abide by the code.

A copy of our Code of Ethics is available to clients and prospective clients upon request.

### **Item 12 – Brokerage Practices**

Each discretionary client grants Stonebridge the authority to manage the client's portfolio consistent with the client's selected investment strategy, and subject to any client-imposed restrictions. This authority includes the power to determine which securities to purchase or sell and the amount and price of each transaction. The terms of the grant of authority to Stonebridge are provided in each client's investment advisory or sub-advisory contract either directly with Stonebridge or with WRAP program sponsors.

Non-discretionary clients limit Stonebridge's authority by contract.

Although we recommend that clients authorize us to select the broker-dealer(s) through which their securities transactions are executed (discretionary brokerage), a client may choose instead to instruct us to direct securities transactions through a specific broker-dealer (directed brokerage).

Clients who choose a directed brokerage arrangement are advised that this limitation on our choice of brokers may result in our inability to obtain best execution for the client. Furthermore, Stonebridge may be unable to aggregate a directed brokerage client's order with other orders for the same securities and therefore may be unable to take advantage of volume concessions, or to acquire a desired security (for example, a new issue security) for the client's account. Further, we may be unable to obtain as favorable a price on a transaction for a directed brokerage client as we would if we were able to solicit bids from other broker-dealers for the transaction.

Because the WRAP program fee includes trading commissions for those trades done through the WRAP fee provider's broker, Stonebridge generally executes trades through the WRAP platform unless it determines that the benefits of trading via an alternative method outweigh the benefits of trading through the WRAP platform.

When selecting broker-dealers for a discretionary brokerage client's transactions, Stonebridge will seek "best execution" by considering the following variables: security type, transaction size, desired timing, potential market impact of the transaction, overall execution capability of the broker-dealer, transaction costs, including commission rates and level of



markups/markdowns, broker-dealer reputation and financial stability, the operational compatibility of the firm with Stonebridge, and other factors that we may consider important in a particular circumstance. In general, we will direct transactions to those firms which we reasonably believe will provide the best net price for clients, but price is not the ultimate determinant of best execution, and the other qualitative factors described may be decisive in any given transaction.

We may elect, but are not obligated, to aggregate orders for multiple clients in the same security into a single order if we reasonably determine that such aggregation will result in best execution. As described in the aggregation and allocation procedures portion of our compliance manual, when we aggregate transactions, we generally allocate the transaction pro-rata to client accounts using the average share price. If an aggregated order is partially filled, substantially enough that there are enough purchases or sales to allocate a reasonable number to each client, the client allocations will be pro-rata. If the partial fill is too small, then allocations will be random. For SMA accounts, in the event that client-directed liquidations in certain accounts have created a negative cash balance, allocations of sales will be preferentially made to those accounts to bring them to a zero deficit, and the remainder of sales will be allocated randomly. If an account is excessively high or low on cash due to additions or withdrawals of cash, then that account may take priority before the random fills are assigned.

Odd lots of institutional issues (\$1000 par) are difficult to trade and must frequently be sold at a discount. Therefore, pro-rata allocations of partial purchases and sales of institutional securities will be rounded to the nearest \$500,000 (rounding up \$250,000 and greater), where possible.

With regards to the distribution of model changes to UMA platform providers, changes are currently provided to the WRAP platforms simultaneously. A random rotation may be implemented if in our judgment differences in the UMA sizes become such that they would begin to disturb markets or destructively interfere with one another's trading opportunities.

As a matter of policy, Stonebridge does not have any "soft dollar" arrangements to receive products, services or research in exchange for directing transactions to any broker-dealer.

### **Item 13 – Review of Accounts**

For the UIT portfolios for which we serve as sub-portfolio supervisor, portfolio holdings are periodically monitored for adverse changes (such as ratings downgrades, etc.). In cases of severely adverse change, Stonebridge may recommend to FTA that a security be liquidated from a UIT portfolio. FTA has discretion over these portfolios and ultimately determines whether or not it will follow Stonebridge's recommendations.

All other portfolios are subject to review on a periodic basis by the investment team, which assesses current market conditions and considers how they may affect various asset classes. Based on these reviews, Stonebridge may decide to adjust the holdings in client's accounts.

Clients will receive a monthly written account statement directly from the broker-dealer or custodian of their accounts, which will detail all transaction activity during the month. For further information, see item 15 below.

Clients are advised and encouraged to inform Stonebridge of changes in their financial situation, investment objectives, risk tolerance, etc. on an ongoing basis. Stonebridge representatives are available to consult with clients as needed.

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

Stonebridge may enter into written solicitation agreements with affiliated or unaffiliated third parties. The material terms of any such agreement, shall be disclosed to clients at the time of investment or at or before the time of execution of an investment management agreement, as required by the Investment Advisers Act of 1940. Currently, Stonebridge has an arrangement with FTP, an affiliate described in Item 4 above, whereby FTP is compensated for accounts brought into Stonebridge through the work of FTP's wholesalers.

#### **Item 15 – Custody**

Stonebridge does not have custody of client assets, either cash or securities. Clients should receive at least quarterly written statements from the broker dealer, bank or other qualified custodian that holds and maintains the client's assets. Stonebridge does not supply written statements to all of its clients. If your contract with Stonebridge provides for you to receive written statements directly from Stonebridge, we urge you to carefully review and compare such statements to the records provided to you by your custodian. For legal purposes, the custodial record is the official record. You should note, therefore, that the cost basis of your securities for tax purposes must be obtained from your custodial statements. Statements prepared and distributed by Stonebridge may vary from custodial statements due to differences in accounting methods (e.g. high-cost versus First-In/First-Out accounting), reporting dates, or valuation methodologies of certain securities. Stonebridge bills custodians for the advisory fees owed to us for the services that we provide to our clients whose accounts are housed with that custodian, and does not have the ability to directly access client assets to pay our fees. If a custodian does not pay the bill when submitted, Stonebridge may send a bill directly to the client for any unpaid fees.

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

At the outset of an advisory relationship Stonebridge generally receives discretionary authority from the client to select securities to purchase, sell, reinvest, or exercise rights associated with securities, and the amount and price of such securities. We exercise this discretion using our best judgment, in a manner consistent with the client's selected investment strategy, and subject to any client-imposed restrictions, or the fund prospectus, as applicable. When the client is a registered investment company, Stonebridge's discretionary authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Client investment guidelines and restrictions must be provided to Stonebridge in writing, for Stonebridge's consideration as to whether or not we are able to effectively manage an account having such restrictions.

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

The preferred securities in which we generally invest do not normally carry proxy voting rights, and we do not anticipate acquiring equity securities that have such rights. But in the event that a proxy vote is solicited on a security held in client portfolios, Stonebridge will strive to cast its vote in the best economic interests of the client, following the proxy voting guidelines detailed in our Proxy Voting Policy.

From time to time, new clients may be permitted to fund a new account with in-kind securities. In such circumstances, we review the in-kind portfolio, retain those securities that fit Stonebridge's strategies, and quickly sell the remaining securities (for which we may have no particular expertise) at current market prices in order to produce cash which can then be invested in strategy-appropriate securities. It may occur that a proxy vote solicitation is received on a security that was received in-kind that is slated for immediate sale. It is our policy to vote "Abstain" on such securities, as we claim no expertise concerning securities that are outside of our strategies and have only transitory possession of them.

Clients may obtain a copy of Stonebridge's Proxy Voting Policy as well as information relating to how proxies were voted by contacting us at 203-762-0004.

### **Item 18 – Financial Information**

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

## **Additional Information**

### **PRIVACY POLICY**

Stonebridge Advisors LLC values our relationship with you and considers your privacy an important priority. We are committed to protecting the security and confidentiality of your personal information.

#### **SOURCES OF INFORMATION**

We collect nonpublic personal information about you from the following sources:

- Your broker-dealer, investment adviser or financial representative through interviews, applications, agreements or other forms
- Your transactions with us or others
- Your inquiries by mail, e-mail or telephone

#### **INFORMATION COLLECTED**

The type of data we collect may include your name, address, social security number, age, financial status, assets, income, tax information, retirement and estate plan information, transaction history, account balance, payment history, investment objectives, marital status, family relationships and other personal information.

#### **DISCLOSURE OF INFORMATION**

We do not disclose any nonpublic personal information about our customers or former customers except as permitted by law. Legally permitted uses include the disclosure of such information to financial service providers and other companies for the following reasons:

- To provide you with products and services and to effect transactions that you request or authorize, we may disclose various aspects of your personal information to financial service providers and other companies that perform administrative or other services on our behalf (for example: transfer agents, custodians, trustees or system developers), or that assist us in the distribution of investor materials (such as trustees, banks, financial representatives, proxy services, solicitors and printers).
- We may also release such information about you if you direct us to do so, if we are compelled by law to do so, or in other legally limited circumstances (for example, to protect your account from fraud).

#### **CONFIDENTIALITY AND SECURITY**

Stonebridge Advisors LLC maintains physical, electronic and procedural safeguards to protect your nonpublic personal information.

#### **POLICY UPDATES AND INQUIRIES**

As required by federal law, we will notify you of our privacy policy annually. We reserve the right to modify this policy at any time, however, if we make a material change, we will tell you promptly. For questions about our policy, please contact us at 1-203-762-0004.