



Stonebridge Advisors LLC
Form ADV Part 2A – Firm Brochure
March 20, 2013

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 us at 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 (“Advisers Act”). 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

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Item 2 – Material Changes

In this Item 2, we summarize material changes that have been made to Stonebridge's September 4, 2012 Brochure.

On February 12, 2013, First Trust Advisors L.P. launched the First Trust Preferred Securities and Income ETF (the "FT ETF"), with Stonebridge as the sub-advisor. The investment objective of the FT ETF is to seek total return and 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.

Stonebridge will serve as a sub-advisor to the First Trust Intermediate Duration Preferred & Income Fund (the "Closed-End Fund"), a newly organized, non-diversified, closed-end management 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. The Closed-End Fund will seek to maintain, under normal market conditions, a blended (or weighted average) portfolio duration of between three and eight years. The registration statement for the Closed-End Fund was filed on February 1, 2013. We expect the Closed-End Fund to begin trading in the second quarter of 2013.

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Item 4 – Advisory Business

Stonebridge provides discretionary investment management services and portfolio supervisory services. Stonebridge specializes in providing such services to fixed income and equity portfolios as further described below. Although Stonebridge may make reference to the tax characteristics of certain securities in connection with some of its strategies, Stonebridge does not provide clients or prospective clients with tax advice related to its investment management and portfolio supervisory services. Clients and/or prospective clients needing such advice regarding investments with Stonebridge need to contact their personal tax consultant(s).

Stonebridge was founded in December 2004 and is owned by Stonebridge Asset Management, LLC and First Trust Portfolios L.P. (“FTP”). As of December 31, 2012, the Firm had total assets under management and supervision of \$1.55 Billion. \$1.35 Billion of those assets were managed on a discretionary basis, while \$190.68 Million was supervised on a non-discretionary basis.

Portfolio Supervisory Services for Unit Investment Trusts

First Trust Advisors L.P. (“FTA”), a registered Investment Advisor and an affiliate of Stonebridge, is the sponsor of the First Trust series of unit investment trusts (“UITs”). 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 (collectively, “preferred securities”) and other securities closely followed by Stonebridge. Stonebridge has assumed the role of sub-portfolio supervisor for these UITs. In this role, Stonebridge monitors the portfolios of the UITs, and notifies FTA (the portfolio supervisor), if based on specific criteria provided by FTA, it feels certain securities should be removed from a UIT. As sub-portfolio supervisor, it is Stonebridge’s responsibility to provide its opinion to FTA within the boundaries described. Stonebridge does not have discretion over investment decisions of the UITs.

Investment Management Services to the First Trust Preferred Securities and Income Fund

Stonebridge serves as a sub-advisor to the First Trust Preferred Securities and Income Fund (the “Preferred Fund”), a series of the First Trust Series Fund (the “Trust”), a registered open-end investment company registered with the SEC under the Investment Company Act of 1940. The Preferred Fund seeks to provide current income and total return. The Preferred Fund seeks to achieve its investment objective 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 that have economic characteristics that are similar to preferred securities include certain debt instruments. Such debt instruments are typically issued by corporations, 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. The Preferred Fund may also invest in more traditional corporate debt securities and U.S. government securities. For further information please consult the First Trust Preferred Securities and Income Fund prospectus.

Investment Management Services to the First Trust Preferred Securities and Income Fund [“the FT ETF”]

Stonebridge serves as a sub-advisor to the First Trust Preferred Securities and Income ETF (“FT ETF”), 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. FT ETF’s investment objective is to seek total return and to provide current income. FT ETF seeks to achieve its investment objective by investing, under normal market conditions, at least 80% of its net assets (including investment borrowings) in preferred securities and income producing debt securities. FT ETF 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 (“ETFs”) 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 further information please consult the First Trust Preferred Securities and Income ETF prospectus.

Investment Management Services to the First Trust Preferred Securities and Income Fund [Closed-End Fund]

Stonebridge will serve as a sub-advisor to the First Trust Intermediate Duration Preferred & Income Fund (the “Closed-End Fund”), a newly organized, non-diversified, closed-end management 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. The Closed-End Fund will seek to maintain, under normal market conditions, a blended (or weighted average) portfolio duration of between three and eight years. The Closed –End Fund intends to invest, at least 80% of its net assets (including investment borrowings) in preferred securities and income producing debt securities. FT ETF invests in securities that are traded over-the-counter or listed on an exchange. The registration statement for the Closed-End Fund was filed on February 1, 2013. For further information please consult the First Trust Intermediate Duration Preferred & Income Fund prospectus. We expect the Closed-End Fund to begin trading in the second quarter of 2013.

Investment Management Services for Preferred Securities Separately Managed Accounts (SMA’s)

Stonebridge offers discretionary separately managed account (“SMA”) investment management services of preferred securities portfolios to individual and institutional investors and to non-profit organizations. In general, Stonebridge will attempt to maximize

total return in each client's selected strategy. Stonebridge will pursue this objective through strategic selection primarily of preferred and hybrid securities, including exchange listed securities and over-the-counter traded securities. Securities will be selected based on perceived relative value principally through fundamental analysis utilizing a variety of data sources including research reports from rating agencies, annual reports, prospectuses, etc.

Changes by Stonebridge to SMA portfolios are generally made before changes are made to model portfolios provided by Stonebridge to WRAP platform sponsors for unified managed accounts (UMA). This may be a factor in advisory clients invested in SMA accounts experiencing different performance than advisory clients invested in UMA strategies due to favorable or unfavorable market changes that may occur in the intervening time period between the implementation of the changes. Both UMA and SMA strategies are managed in a long-only approach.

Stonebridge has developed the following investment strategies for the firm's preferred securities management to meet the different needs of our clients. Common objectives to each of the below listed preferred securities strategies are to maximize total return and the preservation of capital. When deemed appropriate, Stonebridge's portfolio managers may deviate from the below listed guidelines for any of these preferred securities investment strategies in order to maximize total return and/or protect client account assets. Accordingly, the portfolio managers may invest in a mix of different preferred security structures, hybrid securities, and other types of compatible investments such as 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 each of these strategies if market conditions dictate. All of the below mentioned strategies listed in this section are managed within a long only approach. Stonebridge does not give tax advice with respect to any of its investment strategies. Clients should consult with qualified tax professionals concerning the tax treatment of their investment portfolios.

Stonebridge generally requires a minimum of \$250,000 of assets for separate managed accounts that are sponsored through an approved Broker Dealer Wrap Program and invested in the following preferred securities strategies. Stonebridge generally requires a minimum of \$5 million of assets for institutional sized accounts that are not sponsored through a Broker Dealer Wrap Program, and that invest in the following preferred securities strategies. Furthermore, Stonebridge reserves the right to accept an account below the stated minimum in its sole discretion.

Standard Taxable Preferred Securities Strategy generally invests in preferred and hybrid securities that pay dividends and interest in order to maximize preferred income for investors. This strategy offers a diversification and/or alternative to Corporate Bonds and other fully taxable fixed income investments strategies. Investors looking to maximize income from a preferred securities 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.

Modified Taxable Preferred Securities Strategy generally invests in preferred and hybrid securities that pay fully cumulative taxable dividends and interest in order to help manage credit risks while maximizing taxable preferred income for investors. This strategy offers a diversification and/or alternative to Corporate Bonds and other fully taxable fixed income investments strategies. Investors looking to maximize income from a preferred securities portfolio on a pre-tax basis and/or place a high priority on investing in preferred securities that pay fully cumulative dividends would be well suited for this strategy. Examples of typical investors are pension funds, endowments, foundations, and 401(k) or IRA accounts for high net worth individuals. Stonebridge no longer accepts new accounts in this strategy.

Tax-Advantaged QDI Preferred Securities Strategy generally invests in tax-advantaged preferred and hybrid securities that pay Qualified Dividends Income (QDI)¹. This strategy allows investors to maximize tax-advantaged preferred income in their portfolio and is a diversification and/or alternative to Municipal Bonds and other tax-advantaged fixed income investment strategies. Only individuals (not corporations) can claim tax benefits from investing in QDI securities, thus this strategy is well suited for high net worth individual investors looking for tax-advantaged income from a preferred security investment portfolio.

Tax-Advantaged DRD Preferred Securities Strategy generally invests in tax-advantaged preferred and hybrid securities that pay dividends that qualify for the Dividend Received Deductions (DRD)² in order to maximize tax-advantaged preferred income for investors. This strategy is a diversification and/or alternative to municipal bonds and other tax-advantaged fixed income investment strategies. Since 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 and hybrid securities whose interest payments or dividends have been identified by at least one of the major Brokerage Firms as qualified for NRA investors. Stonebridge Advisors does not give individual tax advice with respect to any of its investment strategies, including this strategy. An NRA investor in this strategy will need to consult with a tax expert to confirm

¹ Qualified Dividend Income (QDI) currently allows 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, to receive favorable tax treatment. The maximum QDI tax rate is 20%. This favorable tax treatment is only available to individual investors. A 3.8% Medicare surtax on investment income also goes into effect in 2013. Consult your tax advisor for details.

² Dividend Received Deduction (DRD) is a currently a subset of QDI and allows corporations to deduct 70% of the dividend income from taxation as long as shares are held for a minimum of 46 days.

whether 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 below with respect to SMA account portfolios and will adjust these guidelines as needed to meet restrictions or adjustments indicated by client and accepted by Stonebridge in writing. The investment guidelines are as follows for separately managed preferred securities accounts:

- Stonebridge will typically invest client assets in securities of an issuing firm when the issuing firm ("**issuer**") has a long-term issuer credit rating of investment grade at the time of the investment. "Investment grade" is defined as those issuers that have a long-term credit rating of "BBB-" or higher by Standard & Poor's Rating Group, a division of the McGraw Hill Companies, Inc. ("S&P"), or "Baa3" or higher by Moody's Investors Service, Inc. ("Moody's") or comparably rated by another nationally recognized statistical rating organization ("NRSRO"). Stonebridge may also invest client assets in securities that are unrated by an NRSRO if Stonebridge determines such securities to be of comparable credit quality. In the event that a security is rated by multiple NRSROs and receives divergent ratings, Stonebridge will treat the issuing firm as being rated in the highest rating category received from an NRSRO. Stonebridge may invest in securities issued by below-investment-grade issuers if our internal analysis leads us to conclude that a security has acceptable credit quality and attractive relative value.
- The exposure of client portfolios to any one issuer will generally be 8% or less.

* * *

Any investment guidelines and/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.

If a client meets certain criteria required by Stonebridge to implement interest rate hedging strategies, Stonebridge has developed a proprietary cross hedge model to reduce interest rate risk and makes it available to clients concerned about rising interest rates. The derivatives used may include interest rate swaps, U.S. Treasury Bond futures, U.S. Treasury Note futures and put and call options on U.S. Treasury futures.

For each of the preferred investment strategies described above, Stonebridge may, in its discretion, invest up to 5% of a client's portfolio in exchange-traded funds, closed-end funds, and registered open-ended investment companies who are primarily invested in preferred securities. In such instances, clients need to be aware that the underlying ETF, CEF or open-end fund may charge additional investment management fees that are separate and distinct from the investment management fees charged by Stonebridge. If

Stonebridge did not invest in such securities, clients would not have to pay these additional fees.

Stonebridge may also manage preferred securities portfolios for open-end funds, closed-end funds and/or exchange-traded funds. The guidelines Stonebridge will follow in managing such portfolios will be described in each applicable fund's prospectus and may differ from the above guidelines. Stonebridge may also utilize additional derivative instruments for hedging purposes as permitted by each applicable fund's prospectus.

Stonebridge may develop custom strategies not described herein for some clients. In that circumstance, a custom strategy description will be provided directly to the client.

Investment Management Services - Unified Managed Account Strategies (UMAs)

Stonebridge offers unified managed account ("UMA") model portfolio strategies for preferred and hybrid securities portfolios to certain WRAP account platform sponsors. These strategies may be used by the platform sponsors or other advisors that participate on such platforms with their advisory clients. When directed by certain contracts, Stonebridge may also arrange for the execution of securities trades to implement the strategies.

Changes to model portfolios provided by Stonebridge to platform sponsors for UMAs are generally made after changes are made by Stonebridge to SMA portfolios. This may be a factor in advisory clients invested in UMA model portfolio strategies experiencing different performance than advisory clients invested in SMA accounts due to favorable or unfavorable market changes that may occur in the intervening time period between the implementation of the changes. Both UMA and SMA strategies are managed in a long-only approach.

Investment Management Services for Cash Equivalents and Other Short-Term Securities

Stonebridge offers discretionary investment management services of cash equivalents and other short-term securities portfolios to high net worth individual and institutional investors and to non-profit organizations. Other short-term investments may consist of T-bills, commercial paper, certificates of deposit, Agency securities, preferred securities, floating rate notes, corporate bonds, municipal bonds, variable rate demand notes or variable rate preferred securities and repurchase agreements. T-bills are issued by the U.S. government and have maturities of one year or less and are guaranteed by the government. Commercial paper is short-term debt instruments issued by corporations. Income from such securities is generally taxable interest to the holder. Agency securities are instruments usually issued by government agencies which, depending on the issuer, may be guaranteed

by the government or may not carry such guarantee. Repurchase agreements and reverse repurchase agreements are an agreement between a seller and a buyer, usually collateralized by U.S. government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and, usually, at a stated time.

The selection of other short-term investments will be dependent upon the clients' needs, preferences, tax considerations and upon their average maturity requirements, as identified in clients' written investment guidelines. The credit quality of these securities allows Stonebridge to construct a diversified portfolio with securities that are rated investment grade by Moody's, S&P or other NRSROs. Additionally, Stonebridge will only invest in A-1, P-1 commercial paper as rated by Moody's, S&P or other NRSROs, unless otherwise instructed.

Stonebridge generally requires a minimum of \$10 million of assets for separate managed accounts following the cash equivalent/short-term securities strategy. Furthermore, Stonebridge reserves the right to accept an account below the stated minimum in its sole discretion.

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 Stonebridge's research, investment management decisions and outlook. To the extent possible, Stonebridge attempts to manage each client portfolio to the particular model for the client's chosen investment strategy. Due to a number of reasons, some within and some beyond the control of Stonebridge, however, client portfolios will not always look exactly like the chosen model. For example, clients may place reasonable investment restrictions on the management of their portfolios which may create dispersion in performance and securities holdings when compared to the relevant model.

Additionally there may be situations where, due to security specific characteristics, it may not be prudent or practical to sell and or purchase an entire position in a short period of time. In such cases, Stonebridge will prudently work to bring the client's account in line with the model in as timely a manner as possible using its professional judgment.

There may also be situations where client portfolios may not be able to engage in certain securities transactions due to such things as restrictions on securities, systems and/or data issues at the client's designated broker-dealer custodian/WRAP program sponsor. In these particular cases, Stonebridge will begin effecting transactions for these clients once it has been advised by the client's designated broker-dealer custodian/WRAP program sponsor that the issue(s) have been resolved.

Finally, not all Preferred and Hybrid securities are highly liquid. Trading in a highly liquid market is the most conducive environment to trade client portfolios based on a model

portfolio. Rather than systematically avoid including less liquid securities in our models, Stonebridge may use models as flexible guidelines; this allows Stonebridge the opportunity to make compatible investment decisions based on Stonebridge's professional judgment as market conditions present themselves. Because of this approach Stonebridge does not make Model Portfolios available for public review.

Item 5 – Fees and Compensation

Stonebridge's fee schedule for separate managed accounts of preferred securities is as follows:

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

Notwithstanding the above schedule, Stonebridge reserves the right to deviate from the schedule on a case-by-case basis in its sole discretion. Furthermore, the above fee schedule does not apply to open-end funds, closed-end funds or exchange-traded funds for which Stonebridge may serve as investment adviser or sub-adviser. Stonebridge's fees will be disclosed in each applicable fund's prospectus.

Stonebridge's fee schedule for separately managed accounts of cash equivalents and short-term securities is as follows:

<u>Value of Portfolio</u>	<u>Annual Management Fee</u>
Up to \$25 million	0.20%
Over \$25 million	0.15%

Notwithstanding the above schedule for cash equivalents and short-term securities, Stonebridge reserves the right to deviate from the schedule on a case-by-case basis in its sole discretion.

Stonebridge billing is primarily handled through our clients' custodial service provider and may bill its advisory fees either in advance or in arrears. If the client is associated with an Advisor WRAP program, the manner in which billing takes place is highly dependent upon the broker-dealer custodian/WRAP program sponsor the client uses to access the Firm's investment management services. Stonebridge clients and prospects on a WRAP single contract platform should examine their agreements with the broker-dealer custodian/WRAP program sponsor to determine the exact manner in which fees are assessed. Clients and prospects on a dual contract platform, or clients that have single

contracts directly with Stonebridge, should review their advisory agreement with Stonebridge to determine the exact manner in which fees are assessed. Below is a general overview of Stonebridge's billing practices.

When Stonebridge is responsible for assessing fees, if billing is in arrears Stonebridge will assess its fees for investment management services based on the market value of each 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 Stonebridge is unable to collect the account's final fee payment through client's custodial service provider (e.g. client's custodial account has been terminated), Stonebridge reserves the right to bill the client directly for the assessed amount of the final fee.

When Stonebridge is responsible for assessing fees, if billing in advance Stonebridge will assess its first fee for investment management services 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 calendar 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 Advisory Fee will be prorated to the termination date, and a refund of the prepaid fee will be issued.

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

Stonebridge's advisory fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which may be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to Stonebridge's fee, and Stonebridge does not receive any portion of these commissions, fees, and costs.

Item 12 below further describes the factors that Stonebridge considers 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 the assets of a client).'

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, and 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 and/or company management at which they receive market and economic information relevant to the Firm's management of client accounts. Stonebridge's research and investment staff engage in several methods of securities analysis. These methods include 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, as some of them 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 relates to the 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 the Firm on behalf of its clients will acquire

or sell short will 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.

Preferred Securities Risk. An investment in preferred securities involves risks not associated with an investment in common stocks as set forth below.

- **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 of 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 the issuer. If clients own a preferred security that is deferring its distributions, clients may be required to report income for federal income tax purposes although it has 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 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 interest rather than dividends for federal income tax purposes and therefore their distributions are taxable. Distributions on trust preferred securities will be made only if interest payments on the related interest-bearing notes of the operating company are made. Because a corporation issuing the interest-bearing notes may defer interest payments on these instruments for up to 20 consecutive quarters, if such 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 which could have the effect of reducing the ability of the issuer to meet its payment obligations and might result in increased credit risk. In addition, certain of the securities may be redeemed or prepaid by the issuer, resulting in lower interest payments received by clients.

Financial Company Risk. Investments in financial-related companies involve specific risks. Negative developments relating to the subprime mortgage market have adversely affected credit and capital markets worldwide and reduced the willingness of lenders to extend credit, making borrowing on favorable terms more difficult. In addition, the liquidity of certain debt instruments has been reduced or eliminated due to the lack of available market makers. Banks and thrifts face increased competition from non-traditional lending sources as regulatory changes permit new entrants to offer various financial products. Regulatory changes could cause business disruptions or result in significant loss of revenue, and there can be no assurance as to the actual impact that these laws and their regulations will have on the financial markets.

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. Convertible securities have characteristics of both equity and debt securities and, as a result, 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. However, 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 the risk that an issuer is unable to meet its obligation to make dividend or principal payments when due as a result of changing financial or market conditions. Convertible securities generally offer lower interest or dividend yields than nonconvertible debt securities of similar credit quality because of their potential for capital appreciation.

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. The use of derivatives presents risks different from, and possibly greater than, the risks associated with investing directly in traditional securities. Among the risks presented are 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, which may be magnified by certain features of the derivatives. In addition, when a client invests in certain derivative securities, including, but not limited to, when issued securities, forward commitments, futures contracts and interest rate swaps, they are effectively leveraging their investments, which could result in exaggerated changes in the value of the client's portfolio and can result in significant losses. The success of the Firm's derivatives strategies will depend on its ability to assess and predict the impact of market or economic developments on the underlying asset, index or rate and the derivative itself, without the benefit of observing the performance of the derivative under all possible market conditions. 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 selected investment objective(s).

Dependence of Key Personnel Risk. Stonebridge is dependent upon the experience and expertise of Messrs. Scott Fleming, Allen Shepard and Robert Wolf in providing advisory services with respect to clients' investments. If Stonebridge were to lose the services of any of these individuals, its ability to service clients could be adversely affected. There can be no assurance that a suitable replacement could be found for any of Messrs. Scott Fleming, Allen Shepard or Robert Wolf in the event of their death, resignation, retirement or inability to act on behalf of Stonebridge.

Current Market Conditions Risk. Domestic and international markets have experienced a period of decreased economic activity across all sectors of the world economy, and unemployment remains at increased levels. These market conditions began with problems in the financial sector, many of which were caused by defaults on "subprime" mortgages and mortgage-backed securities. These market conditions increase the risk that the value of client's assets may be subject to steep declines or increased volatility due to changes in performance or perception of the issuers.

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. Common stock prices may be particularly sensitive to rising interest rates, as the cost of capital rises and borrowing costs increase.

Clients should be aware that each investment strategy offered by Stonebridge may not achieve its objectives under certain market conditions, which may prevail for substantial periods of time after the 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 Stonebridge or 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, 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 of the First Trust Preferred Securities and Income Fund. FTP is a partial owner of Stonebridge.
- As previously stated, Stonebridge serves as sub-portfolio supervisor to certain of the First Trust unit investment trusts.

As previously stated, 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.

- 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.
- BondWave LLC ("BondWave") is a registered investment adviser and is an affiliate of FTP. FTP has controlling interest in BondWave.

Certain directors or officers of Stonebridge are also officers or directors of SAM, FTP, FTA and/or BondWave as described below:

- Mr. James A. Bowen is the Chairman of the Board of Stonebridge and BondWave and also the Chief Executive Officer of FTP and FTA.
- Mr. Mark R. Bradley is the Chief Financial Officer of Stonebridge and BondWave and also the Chief Operating Officer of FTP and FTA.

- Mr. Scott T. Fleming is the Chief Executive Officer of Stonebridge and also the owner and Chief Executive Officer of SAM.
- Mr. W. Scott Jardine is the Secretary of Stonebridge, General Counsel of FTP and FTA and also General Counsel and Corporate Secretary of BondWave.

Item 11 – Code of Ethics

Stonebridge does not buy or sell for itself securities which it also recommends to clients; however, officers and employees of Stonebridge (“Associated Persons”) may buy or sell securities for their personal accounts which Stonebridge also recommends to its clients, with pre-approval by the Chief Compliance Officer. Stonebridge has implemented policies and procedures, summarized below, to ensure that such activity does not create a conflict of interest with its clients.

Stonebridge has implemented a Code of Ethics pursuant to which each Associated Person is required to inform any account over which he/she has any direct or indirect beneficial interest to send duplicate confirmations and statements to the Chief Compliance Officer. Each such confirmation will include the following information: name of security and “ticker symbol,” if applicable; date and nature of transaction (i.e., buy, sell, etc.); price; and name of broker-dealer through which the transaction was executed. Subject to certain exceptions, no Associated Person may purchase or sell any security which Stonebridge is purchasing or selling, or considering for purchase or sale, for client accounts. A copy of Stonebridge’s Code of Ethics is available to clients and prospective clients upon request.

In addition to the monitoring process described above, the Code of Ethics requires each Associated Person to provide the Chief Compliance Officer with a listing of securities held within ten days of hire and as of the end of each calendar year, and to certify that he/she has read, understands and agrees to abide by the Code of Ethics. Furthermore, the Code of Ethics prohibits an Associated Person 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. Furthermore, Stonebridge maintains written policies and procedures reasonably designed to prevent the unlawful use of material non-public information by its Associated Persons. Stonebridge may revise its policies and procedures and/or adopt additional policies and procedures in the future.

Item 12 – Brokerage Practices

As previously described, Stonebridge offers discretionary investment management services of fixed income and equity portfolios. As such, Stonebridge has the authority to manage each client’s portfolio consistent with the client’s investment objectives (subject to any client imposed restrictions), which authority includes the determination of which securities to purchase or sell and the amount and price of such securities to purchase or sell.

Clients may instruct Stonebridge to direct securities transactions through a specific broker-dealer (client-directed brokerage arrangements). Alternatively, clients may authorize Stonebridge to select the broker-dealer(s) to execute securities transactions (discretionary brokerage arrangements). In general, Stonebridge advises its clients to allow Stonebridge the discretion to select the brokerage firms to utilize.

Clients are advised that in a client-directed brokerage arrangement Stonebridge may be unable to negotiate commission rates and/or the extent of markups/markdowns and thus may be unable to obtain best execution for the client. Furthermore, Stonebridge may be unable to aggregate a client's order with other orders for the same securities and therefore may be unable to take advantage of volume concessions. Additionally, Stonebridge may be unable to acquire a desired security for a client's account (including, for example, a new issue security). Similarly, Stonebridge may be unable to obtain as favorable a price for a client as would be the case if Stonebridge were able to solicit bids from other broker-dealers for the specific transaction.

In most instances, when a client becomes a Stonebridge client through a sponsoring advisor's broker-dealer platform, Stonebridge will use the brokerage firm's trading platform designated by the client to execute orders for such client's account. As such, transactions executed through client-designated broker-dealers trading platforms are not subject to Stonebridge's best execution review procedures. Only those trades sent to broker-dealers at the discretion of Stonebridge are reviewed as part of the firm's best execution review.

Stonebridge will endeavor to obtain "best execution" for its clients. In a discretionary brokerage arrangement, Stonebridge will consider the following variables in selecting broker-dealers to utilize: the type of security involved; the size of the transaction; the desired timing of the transaction; the potential market impact of the transaction; the overall execution capability of the firm; the level of transaction charges, including commission rates and level of markups/markdowns; the reputation of the firm; the financial stability of the firm; the operational compatibility of the firm with Stonebridge; and other factors as Stonebridge may consider important in evaluating broker-dealer firms. In general, Stonebridge will direct transactions to those firms which it reasonably believes will provide the best net price for its clients, subject however to the qualitative factors described.

Stonebridge may elect (but is not obligated) to aggregate an order for multiple clients in the same security if Stonebridge reasonably determines that such aggregation will result in best execution. In such a case, Stonebridge shall determine in advance the accounts to participate in the aggregate transaction and generally allocate the transaction to client accounts pro-rata using the average net price paid/received. Under limited circumstances, (e.g., the number of shares obtained is very small relative to the order size) when the aggregated transaction is not executed in full and a pro-rata allocation is impractical under the circumstances, Stonebridge will exercise its discretion to allocate by rotation, on the

basis of need (e.g. a new account), or randomly, as is warranted by the situation in Stonebridge's judgment.

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

Item 13 – Review of Accounts

With respect to the UIT portfolios for which Stonebridge serves as sub-portfolio supervisor, portfolio holdings will be periodically monitored for adverse changes (such as ratings downgrades, etc.). Securities so identified will be further scrutinized and, in extreme cases, Stonebridge may recommend to FTA that a security be liquidated from a UIT portfolio, which may or may not be followed by FTA, as FTA, and not Stonebridge has discretion over these portfolios.

All other portfolios are subject to review on a weekly basis by the Investment Committee.. The Committee will assess current market conditions and consider how such conditions may affect various fixed income asset classes. Subject to each client's investment objectives and to the parameters allowed by the client's investment management contract, Stonebridge may adjust the holdings in the client's account based on the perceived relative value.

Clients will receive a monthly written account statement directly from the broker-dealer or custodian of the client's account which will detail all transaction activity during the month. For further information about client statements 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. Representatives of Stonebridge are available to consult with clients as needed.

Item 14 – Client Referrals and Other Compensation

Stonebridge may, from time to time, enter into written solicitation agreements with affiliated or unaffiliated third parties. The material terms of the agreement, as directed by the Investment Advisers Act of 1940, shall be disclosed to clients at the time of investment or at or before the time of execution of an investment management agreement. Currently, Stonebridge has an arrangement with FTP, an affiliate as described earlier, 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 client's investment assets. Stonebridge does

not supply written statements to all its clients. If your contract with Stonebridge arranges for you to receive written statements directly from Stonebridge, we urge you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Any statements prepared and distributed by the Firm may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. Please contact us if any discrepancies are found between these statements.

Item 16 – Investment Discretion

Stonebridge usually receives discretionary authority from the client at the outset of an advisory relationship to select which securities to purchase or sell and the amount and price of such securities to purchase or sell. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account. When selecting securities and determining amounts, Stonebridge observes the investment policies, limitations and restrictions of the clients for which it advises. When registered investment companies are Stonebridge client, the Firm's 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.

Investment guidelines and restrictions must be provided to Stonebridge in writing.

Item 17 – Voting Client Securities

Stonebridge does not anticipate acquiring the equity securities of a company subject to a proxy vote, but in the event that a proxy vote is required, Stonebridge will strive to ensure that all proxies are voted consistently and solely in the best economic interests of the client.

Clients may obtain 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 Form, Stonebridge has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

Additional Information

STONEBRIDGE ADVISORS LLC PRIVACY POLICY

Stonebridge Advisors LLC values our relationship with you and considers your privacy an important priority in maintaining that relationship. 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:

- Information we receive from you, or your broker-dealer, investment adviser or financial representative through interviews, applications, agreements or other forms
- Information about your transactions with us, our affiliates or others
- Information we receive from 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. These permitted uses include the disclosure of such information to financial service providers and other companies for the following reasons:

- In order to provide you with products and services and to effect transactions that you request or authorize, we may disclose your personal information as described above to financial service providers and other companies that perform administrative or other services on our behalf, such as transfer agents, system developers, custodians and trustees, 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

With regard to our internal security procedures, Stonebridge Advisors LLC restricts access to your nonpublic personal information to those Stonebridge Advisors LLC employees who need to know that information to provide products or services to you. We maintain 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 do change it, we will tell you promptly. For questions about our policy, please contact us at 1-203-762-0004.