

16th Amendment Advisors LLC

SEC File Number: 801 – 70324

Brochure

Dated: January 31, 2018

Contact: Compliance Department
One Rockefeller Plaza, Suite 1202
New York, New York 10020
www.16thadvisors.com

This brochure provides information about the qualifications and business practices of 16th Amendment Advisors LLC (the “Adviser”). If you have any questions about the contents of this brochure, please contact us at (212) 332-1600 or info@16thadvisors.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about 16th Amendment Advisors LLC also is available on the SEC’s website at www.adviserinfo.sec.gov.

References herein to 16th Amendment Advisors LLC as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.

Item 2 Material Changes

There have been no material changes made to 16th Amendment Advisors, LLC's disclosure statement since last year's Annual Amendment filing. Notwithstanding the foregoing, the Advisor resigned as the Advisor to the Saratoga Advantage Trust Municipal Bond Portfolio effective April 17, 2017.

Item 3 Table of Contents

Item 1	Cover Page.....	1
Item 2	Material Changes.....	2
Item 3	Table of Contents.....	2
Item 4	Advisory Business	3
Item 5	Fees and Compensation	6
Item 6	Performance-Based Fees and Side-by-Side Management	7
Item 7	Types of Clients.....	8
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss.....	8
Item 9	Disciplinary Information	10
Item 10	Other Financial Industry Activities and Affiliations	10
Item 11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	11
Item 12	Brokerage Practices	13
Item 13	Review of Accounts.....	15
Item 14	Client Referrals and Other Compensation	15
Item 15	Custody.....	16
Item 16	Investment Discretion.....	16
Item 17	Voting Client Securities.....	16
Item 18	Financial Information	17

Item 4 Advisory Business

- A. 16th Amendment Advisors LLC is a limited liability company formed on May 15, 2009 in the State of Delaware. The Adviser became registered as an Investment Adviser Firm in May 2009. The Adviser is principally owned by John J. Lee, Evan D. Lamp, and Richard J. McCarthy, the Adviser's Managing Members.

As discussed below, the Adviser offers advisory services to individual clients, on a discretionary basis, primarily limited to the purchase and sale of municipal securities. The Adviser also serves as an Investment Adviser to proprietary separately managed accounts for its members and their families which are not open to outside investors. In addition, as discussed below, the Adviser provides advisory services to an affiliated proprietary private investment fund, which is not open to outside investors, in accordance with the terms and conditions of the private fund's offering documents.

Please Note: Conflict Of Interest. The Adviser has policies and procedures in place that distinguish between investment strategies and provide for fair allocation of securities to all clients. These policies are available to be reviewed by clients and prospects upon request, in writing, to the Adviser. **The Adviser's Chief Compliance Officer, John J. Lee, remains available to address any questions regarding this conflict of interest.**

- B. The Adviser **does not** provide financial planning, estate planning, insurance planning or any related or unrelated financial planning.

INVESTMENT ADVISORY SERVICES

The client can determine to engage the Adviser to provide discretionary investment advisory services on a *fee-only* basis. The Adviser's annual investment advisory fee is based upon a percentage (%) of the market value of the assets placed under the Adviser's management (generally between 0.20% and 2.50%) as follows:

* The Adviser, in its sole discretion, may provide investment advisory services on a fixed fee basis (See disclosure below)

* In the event that a client requests extraordinary services, the Adviser reserves the right to increase its management fee.

MISCELLANEOUS

Limited Consulting Services. To the extent requested by a client, Registrant may provide financial planning and related consulting services regarding non-investment related matters, such as estate planning, tax planning, insurance, etc. The Registrant does not serve as a law firm, accounting firm, or insurance agency, and no portion of Registrant's services should be construed as legal, accounting, or insurance implementation services. Accordingly, Registrant does not prepare estate planning documents, tax returns or sell insurance products. To the extent requested by a client, Registrant may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance agents, etc.). Clients are

reminded that they are under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation made by Registrant or its representatives. **Please Note:** If the client engages any unaffiliated recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional.

Fixed Fee Investment Advisory Services. The Adviser may provide investment advisory services on a *fee-only* fixed fee basis based upon **various objective and subjective factors**, including, scope of the advisory service to be provided, the complexity of the engagement, types of investments, and in the event of a non-discretionary engagement, the dollar amount of any recommended transaction. The terms and conditions of any such engagements shall be set forth in an Investment Advisory Agreement between the Adviser and the client. **Please Note:** Adviser's affected fixed fee clients could pay different fees based upon these subjective factors, which services could be available from other advisers at lower fees.

Client Obligations. In performing its services, Adviser shall not be required to verify any information received from the client or from the client's other professionals (in each case whether written or oral), and is expressly authorized to rely thereon. Moreover, each client is advised that it remains their responsibility to promptly notify the Adviser in writing if there is ever any change in their financial situation or investment objectives for the purpose of reviewing/evaluating/revising Adviser's previous recommendations and/or services.

Disclosure Statement. A copy of the Adviser's written Brochure as set forth on Part 2A of Form ADV shall be provided to each client prior to, or contemporaneously with, the execution of the *Investment Advisory Agreement*.

Proprietary Funds And Accounts. The Adviser also serves as the investment manager to certain affiliated proprietary private investment funds, Vicksburg Municipal Trading Fund LP and its offshore feeder fund, Vicksburg Municipal Trading Offshore Fund LTD (all funds together the "*affiliated funds*"). Vicksburg Municipal Partners LLC serves as the General Partner of Vicksburg Municipal Trading Fund LP (the complete description of the terms, conditions, and risks is set forth in each *affiliated funds* offering documents). The *affiliated funds* are proprietary in nature and not open to clients of the Adviser. The Adviser also serves as an Investment Adviser to *proprietary separately managed accounts*. The investment strategy of the *proprietary separately managed accounts* is not open to clients of the Adviser.

Please Note: The investment strategies of the Adviser's affiliated funds and accounts are materially different than the strategies for the client accounts and generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in each fund's offering documents, which will be provided to each client for review and consideration. Unlike liquid investments that a client may maintain, the affiliated funds do not provide daily liquidity or pricing and rely on persistent use of leverage, hedging and active trading.

Please Also Note: Conflict Of Interest. The affiliated private investment fund and proprietary separately managed accounts may also invest in the same securities as other clients of the Adviser. The Adviser has policies and procedures in place that distinguish between the proprietary and investment strategies and provide for fair allocation of securities to all clients. These policies are available to be reviewed by clients and prospects upon request, in writing, to the Adviser. **The Adviser's Chief Compliance Officer, John J. Lee, remains available to address any questions regarding this conflict of interest.**

- C. The Adviser shall provide investment advisory services consistent with investment guidelines of investment strategies it manages and may, if requested, and agreed to by the Adviser, to the specific needs of each client. Prior to providing investment advisory services, an investment adviser representative will ascertain each client's investment objective(s) and which investment strategy is appropriate. Thereafter, after completion of an Investment Advisory Agreement with the Adviser, the Adviser shall allocate and/or recommend that the client allocate investment assets consistent with the designated investment strategy. The client may, at any time, impose reasonable restrictions, in writing, on the Adviser's services, which restrictions must be agreed upon by the Adviser.
- D. **Please Note (Wrap/Separate Managed Account programs):** In the event that the Adviser is engaged to provide investment advisory services as part of an unaffiliated wrap-fee program, the Adviser will be unable to negotiate commissions and/or transaction costs. Under a wrap program, the wrap program sponsor arranges for the investor participant to receive investment advisory services, the execution of securities brokerage transactions, custody and reporting services for a single specified fee. Participation in a wrap program may cost the participant more or less than purchasing such services separately. In the event that the Adviser is engaged to provide investment advisory services as part of an unaffiliated managed account program, Adviser will likewise be unable to negotiate commissions and/or transaction costs. If the program is offered on a non-wrap basis, the program sponsor will determine the broker-dealer through which transactions must be effected, and the amount of transaction fees and/or commissions to be charged to the participant investor accounts. **Please Note:** Since the custodian/broker-dealer is determined by the unaffiliated program sponsor, Adviser will be unable to negotiate commissions and/or transaction costs, and/or seek better execution. As a result, client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case through alternative clearing arrangements recommended by Adviser. Higher transaction costs adversely impact account performance. Adviser's Chief Compliance Officer, John J. Lee, remains available to address any questions that a client may have regarding the above
- E. As of January 31, 2018, the Adviser had \$162,284,939 in assets under management on a discretionary basis.

Item 5 Fees and Compensation

A.

INVESTMENT ADVISORY SERVICES

If a client determines to engage the Adviser to provide discretionary investment advisory services on a *fee-only* basis, the Adviser's annual investment advisory fee shall be based upon a percentage (%) of the market value and type of assets placed under the Adviser's management (generally between 0.20% and 2.50%) as follows:

* The Adviser, in its sole discretion, may provide investment advisory services on a fixed fee basis (**See** disclosure above)

* In the event that a client requests extraordinary services, the Adviser reserves the right to increase its management fee.

- B. Clients may elect to have the Adviser's advisory fees deducted from their custodial account. Both Adviser's *Investment Advisory Agreement* and the custodial/clearing agreement may authorize the custodian to debit the account for the amount of the Adviser's investment advisory fee and to directly remit that management fee to the Adviser in compliance with regulatory procedures. In the limited event that the Adviser bills the client directly, payment is due upon receipt of the Adviser's invoice. Generally, the Adviser shall deduct fees and/or bill clients quarterly in advance, based upon the market value of the assets on the last business day of the previous month.
- C. As discussed below, unless the client directs the Adviser to use a specific custodian or an individual client's circumstances otherwise require, the Adviser shall generally recommend that Charles Schwab and Co., Inc. ("*Schwab*") serve as the broker-dealer/custodian for client investment management assets. Broker-dealers serving as custodian for a client account charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e. transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and fixed income securities transactions). In addition to Adviser's investment management fee, brokerage commissions and/or transaction fees, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses).

Tradeaway/Prime Broker Fees. Relative to the Adviser's discretionary investment management services, when beneficial to the client, individual fixed income transactions shall be effected through broker-dealers other than the account custodian, in which event, the client generally will incur both the fee (commission, mark-up/mark-down) charged by the executing broker-dealer and a separate "tradeaway" and/or prime broker fee charged by the account custodian.

- D. Adviser's annual investment advisory fee shall be prorated and paid quarterly, in advance, based upon the market value of the assets on the last business day of the previous month. The Adviser generally requires a minimum asset level of \$1,000,000 for investment advisory services. The Adviser, in its sole discretion, may charge a lesser investment management fee and/or waive or reduce its minimum asset requirement based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

The *Investment Advisory Agreement* between the Adviser and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Advisory Agreement*. Upon termination, the Adviser shall refund the pro-

rated portion of the advanced advisory fee paid based upon the number of days remaining in the billing month.

- E. Neither the Adviser, nor its representatives accept compensation from the sale of securities or other investment products.

Item 6 Performance-Based Fees and Side-by-Side Management

Rule 205-3 of the Investment Advisers Act of 1940 permits a registered investment adviser to enter into a performance fee agreement with certain sophisticated clients who have the capacity to bear the potential additional risks of such a fee arrangement. An adviser can rely on Rule 205-3 only if the performance fee agreement is with "eligible" clients. Eligible clients are defined in the Rule as natural persons and companies that have *either* at least \$1,000,000 under management with the Adviser immediately after entering into a performance fee agreement *or* a net worth at the time the agreement is entered into in excess of \$2,100,000 (i.e. a natural person's net worth may include assets held jointly with a spouse).

Consistent with the parameters of Rule 205-3 of the Investment Advisers Act of 1940 (to the extent Rule 205-3 is applicable), the Adviser (and/or Adviser's affiliated entities) may also receive, both for managed accounts and its *affiliated funds* incentive or performance fee compensation on a fully disclosed written basis. Because Adviser and its representatives manage client accounts that charge both an asset-based fee and/or a performance based fee as well as proprietary accounts, this arrangement creates a **conflict of interest**, as Adviser and its representatives may have an incentive to favor compensation arrangements where Adviser receives both an asset-based fee and a performance fee or to favor proprietary accounts. No client is under any obligation to become an investor in a performance-based fee strategy. The Adviser has policies and procedures in place to ensure fair allocation of securities to all clients. **The Adviser's Chief Compliance Officer, John J. Lee, remains available to address any questions regarding this conflict of interest.**

Item 7 Types of Clients

The Adviser's clients shall generally include individuals, family offices, business entities, investment funds, trusts, estates and charitable organizations. The Adviser generally requires an annual minimum asset level of \$1,000,000 for investment advisory services. The Adviser, in its sole discretion, may charge a lesser investment management fee and/or waive or reduce its minimum asset requirement based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

Our investment business is based on investing and trading municipal securities. We evaluate and gauge the appropriateness of investments for the investment strategies we manage. The primary decision making factor is whether or not the particular bond being

offered meets the objectives of the specific portfolio at a given time. We do not use models as this is a market that rewards time, experience, and judgment. The process is dynamic. Access to high quality information is essential. Specifically, the Adviser may evaluate the below factors when analyzing a bond:

- Relative value of bond
- Bond characteristics compared to characteristics of current portfolio
- Bond structure
- Analysis of state that the bond is being issued from
- Demand for bond's coupon
- Other retail and institutional bids

The Adviser may utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)
- Trading (securities sold within thirty (30) days)
- Short Sales (contracted sale of borrowed securities with an obligation to make the lender whole)
- Margin Transactions (use of borrowed assets to purchase financial instruments)
- Repo Transactions
- Options (contract for the purchase or sale of a security at a predetermined price during a specific period of time)
- Futures
- Swaps
- Tender Option Bond Trusts (TOBs)
- Forward Rate Agreements

In addition, for certain clients, the Adviser may seek to generate attractive returns through trading of bonds, the trading of residual certificates ("Residual Certificates") of tender option bond trusts ("Tender Option Bond Trusts") backed by municipal bonds and the trading of synthetic positions in municipal bonds, along with the use of various hedging and trading strategies. Residual Certificates of Tender Option Bond Trusts are economically leveraged positions in the underlying bonds held by the trust. Synthetic positions in municipal bonds refer to vehicles such as BMA or MMD swaps that have a price performance that mimic those of long-term municipal bonds. The Adviser will also take short-term positions in a variety of taxable and municipal securities, commercial paper and money market funds.

Please Note: Investment Risk. Different types of investments involve varying degrees of risk, and it should **not** be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by the Adviser) will be profitable or equal any specific performance level(s). In fact, a client may lose some or all of their investment.

The Adviser's separate account and long only strategies are primarily engaged in medium and long term purchases (investments held more than 30 days); as such the investment strategies require a longer investment time period to allow for the strategy to potentially develop. By contrast, the proprietary trading strategies have a short time horizon (i.e. less than 30 days) and rely on persistent use of leverage, hedging and active trading. In this case, the securities may in fact not settle in the custodial account if purchased as a new

issue. In general, the strategies with longer holding periods will be more tax efficient and have lower transaction costs than the proprietary trading strategies which have greater risk and are tax-inefficient. However, every investment strategy has its own inherent risks and limitations.

In addition to the fundamental investment strategies discussed above, the Adviser may also implement and/or recommend – synthetic short selling, hedging, use of margin or repo, and/or options transactions. Each of these strategies has a high level of inherent risk. (See discussion below).

Hedging is a strategy with a high level of risk. It generally involves the sale of an asset or futures contract that is believed will offset the exposure of the long assets. As municipal bonds cannot be shorted, hedging of municipal bond positions is usually done by selling Treasuries, Treasury futures, or other taxable securities or by entering swap contracts. There is significant basis risk between the two different markets, the municipal market and a taxable market, whereby the hedge instrument prices may not move in a manner to offset the movements in the municipal bond prices.

Short selling is an investment strategy with a high level of inherent risk. Short selling involves the selling of assets that the investor does not own. The investor borrows the assets from a third party lender (i.e. Broker-Dealer) with the obligation of buying identical assets at a later date to return to the third party lender. Individuals who engage in this activity shall only profit from a decline in the price of the assets between the original date of sale and the date of repurchase. Conversely, the short seller will incur a loss if the price of the assets rises. Other costs of shorting may include a fee for borrowing the assets and payment of any dividends paid on the borrowed assets. As municipal bonds cannot be shorted, only synthetic shorting can be done, generally using swaps or rate-lock contracts.

Margin use is an investment strategy with a high level of inherent risk. A margin transaction occurs when an investor uses borrowed assets to purchase financial instruments. The investor generally obtains the borrowed assets by using other securities as collateral for the borrowed sum. The effect of purchasing a security using margin is to magnify any gains or losses sustained by the purchase of the financial instruments on margin. **Please Note:** To the extent that a client authorizes the use of margin, and margin is thereafter employed by the Adviser in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to the Adviser may be increased. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the potential *conflict of interest* whereby the client's decision to employ margin *may* correspondingly increase the management fee payable to the Adviser. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client. For the avoidance of doubt, the Adviser charges management fees based on an accounts net market value, not total assets.

The use of options transactions as an investment strategy involves a high level of inherent risk. Option transactions establish a contract between two parties concerning the buying or selling of an asset at a predetermined price during a specific period of time. During the term of the option contract, the buyer of the option gains the right to demand fulfillment by the seller. Fulfillment may take the form of either selling or purchasing a security depending upon the nature of the option contract. Generally, the purchase or the

recommendation to purchase an option contract by the Adviser shall be with the intent of offsetting/"hedging" a potential market risk in a client's portfolio. **Please Note:** Although the intent of the options-related transactions that may be implemented by the Adviser is to hedge against principal risk, certain of the options-related strategies (i.e. straddles, short positions, etc), may, in and of themselves, produce principal volatility and/or risk. Thus, a client must be willing to accept these enhanced volatility and principal risks associated with such strategies. In light of these enhanced risks, client may direct the Adviser, in writing, not to employ any or all such strategies for his/her/their/its accounts.

Currently, the Adviser primarily allocates client investment assets among various debt (municipal bonds) and private investment funds on a discretionary basis in accordance with the investment strategies offered to clients. (See Proprietary Funds and Accounts disclosure above).

Taken individually and together, the investment decisions made by the Adviser have risks. It should **not** be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by the Adviser) will be profitable or equal any specific performance level(s). In fact, a client may lose some or all of their investment.

Item 9 Disciplinary Information

The Adviser has not been the subject of any disciplinary actions.

Item 10 Other Financial Industry Activities and Affiliations

- A. Neither the Adviser, nor its representatives, are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither the Adviser, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.
- C. **Proprietary Funds and Accounts.** The Adviser also serves as the investment manager to certain affiliated private investment funds, Vicksburg Municipal Trading Fund LP and its offshore feeder fund, Vicksburg Municipal Trading Offshore Fund LTD (all funds together the "*affiliated funds*"). Vicksburg Municipal Partners LLC serves as the General Partner of Vicksburg Municipal Trading Fund LP (the complete description of the terms, conditions, and risks associated with each of the *affiliated funds* is set forth in each *affiliated funds* offering documents). The *affiliated funds* are proprietary in nature and not open to clients of the Adviser. The Adviser also serves as an Investment Adviser to *proprietary separately managed accounts*. The investment strategy of the *proprietary separately managed accounts* is not open to clients of the Adviser.

Please Note: The investment strategies of the Adviser's affiliated funds and accounts are materially different than the strategies for the client accounts and generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in each fund's offering documents, which will be provided to each client for review and

consideration. Unlike liquid investments that a client may maintain, the affiliated funds and accounts do not provide daily liquidity or pricing and rely on persistent use of leverage, hedging and active trading.

Please Also Note: Conflict Of Interest. The affiliated private investment fund and proprietary separately managed accounts may also invest in the same securities as other clients of the Adviser. The Adviser has policies and procedures in place that distinguish between the proprietary and investment strategies and provide for fair allocation of securities to all clients. These policies are available to be reviewed by clients and prospects upon request, in writing, to the Adviser. **The Adviser's Chief Compliance Officer, John J. Lee, remains available to address any questions regarding this conflict of interest.**

- D. The Adviser does not receive, directly or indirectly, compensation from investment advisors that it recommends or selects for its clients.

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

- A. The Adviser maintains an investment policy relative to personal securities transactions. This investment policy is part of Adviser's overall Code of Ethics, which serves to establish a standard of business conduct for all of Adviser's Representatives that is based upon fundamental principles of openness, integrity, honesty and trust. The Code of Ethics includes policies and procedures concerning privacy of client non-public information, insider trading personal and proprietary securities transactions, receipt of gifts, and political contributions. Any violation of the Code of Ethics is subject to the Adviser's disciplinary procedures, which may include termination of employment. A copy of the Code of Ethics is available upon request.

- B. As disclosed above, the Adviser has a financial interest in the *affiliated private funds*. The terms and conditions for participation in the *affiliated private funds*, including conflicts of interest and risk factors, are set forth in the fund's offering documents.

These policies are available to be reviewed by clients and prospects upon request, in writing, to the Adviser. **The Adviser's Chief Compliance Officer, John J. Lee, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.**

- C. The Adviser and/or representatives of the Adviser *may* buy or sell securities that are also recommended to clients. This practice may create a situation where the Adviser and/or representatives of the Adviser are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as "scalping" (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if the Adviser did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, "front-running" (i.e., personal trades

executed prior to those of the Adviser's clients) and other potentially abusive practices.

The Adviser has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of the Adviser's "Access Persons." The Adviser's securities transaction policy requires that an Access Person of the Adviser must provide the Chief Compliance Officer or his/her designee with a written report of the their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with monthly brokerage statements. The Chief Compliance Officer or his/her designee shall certify quarterly that each Access person is in compliance with the Code of Ethics.

- D. The Adviser and/or representatives of the Adviser *may* buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where the Adviser and/or representatives of the Adviser are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. As indicated above in Item 11.C, the Adviser has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of Adviser's Access Persons.

Item 12 Brokerage Practices

- A. In the event that the client requests that the Adviser recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct the Adviser to use a specific broker-dealer/custodian), Adviser generally recommends that investment management accounts be maintained at *Schwab*. Prior to engaging Adviser to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with Adviser setting forth the terms and conditions under which Adviser shall manage the client's assets, and a separate custodial/clearing agreement with a designated broker-dealer/custodian. Factors that the Adviser considers in taking on a new broker dealer/custodian include historical relationship with the Adviser, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by Adviser's clients shall comply with the Adviser's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where the Adviser determines, in good faith, that the commission/transaction fee is reasonable. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Adviser will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Adviser's investment management fee. The Adviser's best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

- 1. Research and Additional Benefits

- Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, Adviser may

receive from a broker-dealer/custodian, investment platform, unaffiliated investment manager, vendor, unaffiliated product/fund sponsor, or vendor without cost (and/or at a discount) support services and/or products, certain of which assist the Adviser to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by the Adviser may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by Adviser in furtherance of its investment advisory business operations.

As indicated above, certain of the support services and/or products that *may* be received may assist the Adviser in managing and administering client accounts. Others do not directly provide such assistance, but rather assist the Adviser to manage and further develop its business enterprise.

Adviser's clients do not pay more for investment transactions effected and/or assets maintained at a broker dealer as a result of this arrangement. There is no corresponding commitment made by the Adviser to any entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as result of the above arrangement.

The Adviser's Chief Compliance Officer, John J. Lee, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.

2. The Adviser receives referrals from various individuals and firms, however, such referrals have no bearing on the broker-dealer recommended by the Adviser for client accounts. **The Adviser's Chief Compliance Officer, John J. Lee, remains available to address any questions that a client or prospective client may have regarding the above arrangement.**
3. The Adviser does not generally accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and Adviser will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by Adviser. As a result, client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

Please Note: In the event that the client directs Adviser to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through Adviser.

The Adviser's Chief Compliance Officer, John J. Lee, remains available to address any questions that a client or prospective client may have regarding the above arrangement.

- B. To the extent that the Adviser provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless the Adviser decides to purchase or sell the same securities for several clients at approximately the same time. The Adviser may (but is not obligated to) combine or "bunch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among the Adviser's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. The Adviser shall not receive any additional compensation or remuneration as a result of such aggregation.

Item 13 Review of Accounts

- A. For those clients to whom Adviser provides investment supervisory services, account reviews are conducted on an ongoing basis by the Adviser's Principal and/or representatives. All investment supervisory clients are advised that it remains their responsibility to advise the Adviser in writing of any changes in their investment objectives and/or financial situation.
- B. The Adviser may conduct account reviews on other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.
- C. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. The Adviser may also provide a written periodic report summarizing account activity and performance.

Item 14 Client Referrals and Other Compensation

- A. As referenced in Item 12.A.1 above, the Adviser may receive an economic benefit from a broker dealer custodian. The Adviser, without cost (and/or at a discount), may receive support services and/or products from a broker dealer/custodian.

Adviser's clients do not pay more for investment transactions effected and/or assets maintained at a broker dealer/custodian as a result of this arrangement. There is no corresponding commitment made by the Adviser to a broker dealer/custodian or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as result of the above arrangement.

The Adviser's Chief Compliance Officer, John J. Lee, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest any such arrangement may create.

- B. If a client is introduced to the Adviser by either an unaffiliated or an affiliated solicitor, Adviser *may* pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements. Any such referral fee shall be paid solely from the Adviser's investment management fee and performance fee if applicable, and shall not result in any additional charge to the client. If the client is introduced to the Adviser by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of his/her/its solicitor relationship, and shall provide each prospective client with a copy of the Adviser's written Brochure with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between the Adviser and the solicitor, including the compensation to be received by the solicitor from the Adviser.

Item 15 Custody

The Adviser shall have the ability to have its advisory fee for each client debited by the custodian on a quarterly basis. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. The Adviser may also provide a written periodic report summarizing account activity and performance.

Please Note: To the extent that the Adviser provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by the Adviser with the account statements received from the account custodian. **Please Also Note:** The account custodian does not verify the accuracy of the Adviser's advisory fee calculation.

Item 16 Investment Discretion

The client can determine to engage the Adviser to provide investment advisory services on a discretionary basis. Prior to the Adviser assuming discretionary authority over a client's account, the client shall be required to execute an *Investment Advisory Agreement*, naming the Adviser as the client's attorney and agent in fact, granting the Adviser full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage the Adviser on a discretionary basis may, at anytime, impose restrictions, **in writing**, on the Adviser's discretionary authority (i.e. limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe the Adviser's use of margin, etc.). The request to impose restrictions must be affirmatively acknowledged by Adviser in writing that they are agreed to.

The Advisor provides investment advisory services to the *affiliated funds* and proprietary separately managed accounts on a discretionary basis. The Advisor as the attorney and agent in fact for the *affiliated funds*, granting Adviser full authority to buy, sell, or otherwise effect investment transactions involving the assets in the *affiliated funds*

discretionary account. The Adviser has policies and procedures in place to ensure fair allocation of securities to all clients. These policies are available to be reviewed by clients and prospects upon request, in writing, to the Adviser.

Item 17 Voting Client Securities

- A. Unless the Adviser agrees otherwise in writing, clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets.
- B. Unless the Adviser agrees otherwise in writing to vote client proxies, clients will receive their proxies or other solicitations directly from their custodian. Clients may contact the Adviser to discuss any questions they may have with a particular solicitation.

Item 18 Financial Information

- A. The Adviser does not solicit fees of more than \$1,200, per client, six months or more in advance.
- B. The Adviser is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts. Currently, the founding members do not charge fees on the substantial capital it manages on behalf of the founding families. To the extent that the revenues from fee-paying clients do not meet the expenses of the Advisor, which has been the case in recent years and may be the case in the foreseeable future, the founding members of the Advisor anticipate that they will continue to contribute capital, as needed, to meet the firm's expenses.
- C. The Adviser has not been the subject of a bankruptcy petition.

ANY QUESTIONS: The Adviser's Chief Compliance Officer, John J. Lee, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.