

ARSENAL INVESTMENT ADVISORS—FORM ADV, PART 2A

ITEM 1: COVER PAGE

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This brochure provides information about the qualifications and business practices of Arsenal Investment Advisors, LLC ("we" or "us"). If you have any questions about the contents of this brochure, please contact us at [www.arsenal.pro](http://www.arsenal.pro). The information in this brochure has not been approved or verified by the United States Securities Commission or by any state securities authority.

Additional information about Arsenal Investment Advisors, LLC, also is available on the SEC's website at [www.adviserinfo@sec.gov](mailto:www.adviserinfo@sec.gov).

## ITEM 2: MATERIAL CHANGES

Not Applicable.

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#### ITEM 4: ADVISORY BUSINESS

A. Jeff Sexton, our sole owner, founded us in June 2009. We are located in downtown Louisville, KY.

B. We currently manage four private hedge funds, two of which are onshore funds (i.e., were established in the US) and two of which are offshore funds (i.e., were established in the British Virgin Islands). The onshore funds are the Arsenal Long-Short Fund, LP, and the Arsenal Equity Fund, LLC. The two offshore funds are the Arsenal Long-Short Fund Ltd., and the Arsenal Equity Fund Ltd. We invest the assets of the hedge funds using our proprietary momentum based investment strategy. Our investment objective is to generate capital gains from short term trading opportunities generated by our investment strategy. We are also in the process of becoming an investment adviser to the Catalyst Series Trust, a registered investment company.

C. We do not tailor our investment advisory services to the individual needs of clients and clients may not expose restrictions on the individual securities or types of securities in which we invest.

D. We do not participate in wrap fee account programs.

E. We manage all of our client assets on a discretionary basis. As of March 31, 2011, we had \$998,929.00 of assets under management

## ITEM 5: FEES AND COMPENSATION

A. We charge two types of fees. First, with respect to all four of our private funds, we charge management fees as a percentage of assets under management. Second, with respect to the two Arsenal Long-Short Funds (i.e., onshore and offshore) we charge fees based on a percentage of the positive performance of the funds. Although we reserve the right to charge these fees in the future, we are not currently charging any performance or management fees and have not done so since September 2010.

Here is our current potential fee schedule:

NAME OF FUND	TYPE OF FEE	AMOUNT OF FEE	HOW CALCULATED	WHEN PAID
Arsenal Equity Fund, LLC	Management	3.75%	As a percentage of assets under management (AUM)	Quarterly
Arsenal Equity Fund, Ltd.	Management	3.75%	As a percentage of AUM	Quarterly
Arsenal Long-Short Fund, LP	Management	2.00%	As a percentage of AUM	Quarterly
	Performance	25% of increase in net asset value (NAV)	As a percentage of the increase in NAV	Monthly
Arsenal Long-Short Fund, Ltd.	Management	2.00%	As a percentage of AUM	Quarterly
	Performance	25% of increase in NAV	As a percentage of the increase in NAV	Monthly

B. The fund's independent custodian calculates our fees, deducts them directly from the funds and remits them to us on a quarterly basis.

C. The funds bear the costs related to buying, holding and selling the securities held in them, including custodial fees, brokerage commissions and transaction fees as well as amortized organizational expenses.

D. Clients are not required to pay fees in advance.

E. None of our supervised persons accepts compensation for the sale of securities or other investment products related to the funds.

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

As set forth in Item 5 above, we have the authority to charge performance based fees (that is, fees based on a share of capital gains on or capital appreciation of the assets of a client) with respect to two of the four private funds that we manage. With respect to the other two funds, we charge only a management fee based on a percentage of assets under management in those funds. Because we charge some accounts a performance fee as well as a management fee, and other accounts only a management fee, we may have a potential conflict of interest in that we have an incentive to favor the accounts for which we receive a performance-based fee since we can potentially earn more in fees from these accounts than from the management-fee only accounts. We do not favor any of the funds over the other and generally place the same trades for each type of funds (with the exception of short sales which we only make in the two Arsenal Long-Short funds). Since we are not currently charging any fees with respect to either type of fund, we do not have a current conflict of interest. That is not to say that such a conflict will not exist if we do start charging fees to the accounts.

## ITEM 7: TYPES OF CLIENTS

The four private pooled investment funds are the only clients that we have. They are each pooled investment accounts (often referred to in the industry as “hedge funds”). The investors in the funds may be individuals or entities. As mentioned in Item 6 above, we have agreed to provide asset management services to the Catalyst Funds, a registered investment company. The Catalyst Funds is in the process of amending its current registration statement with the SEC to include a new class of shares that we will manage.

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

Set forth below are the methods of analysis and investment strategies that we use in managing assets. Investing in securities involves a risk of loss that clients should be prepared to bear.

### Objective

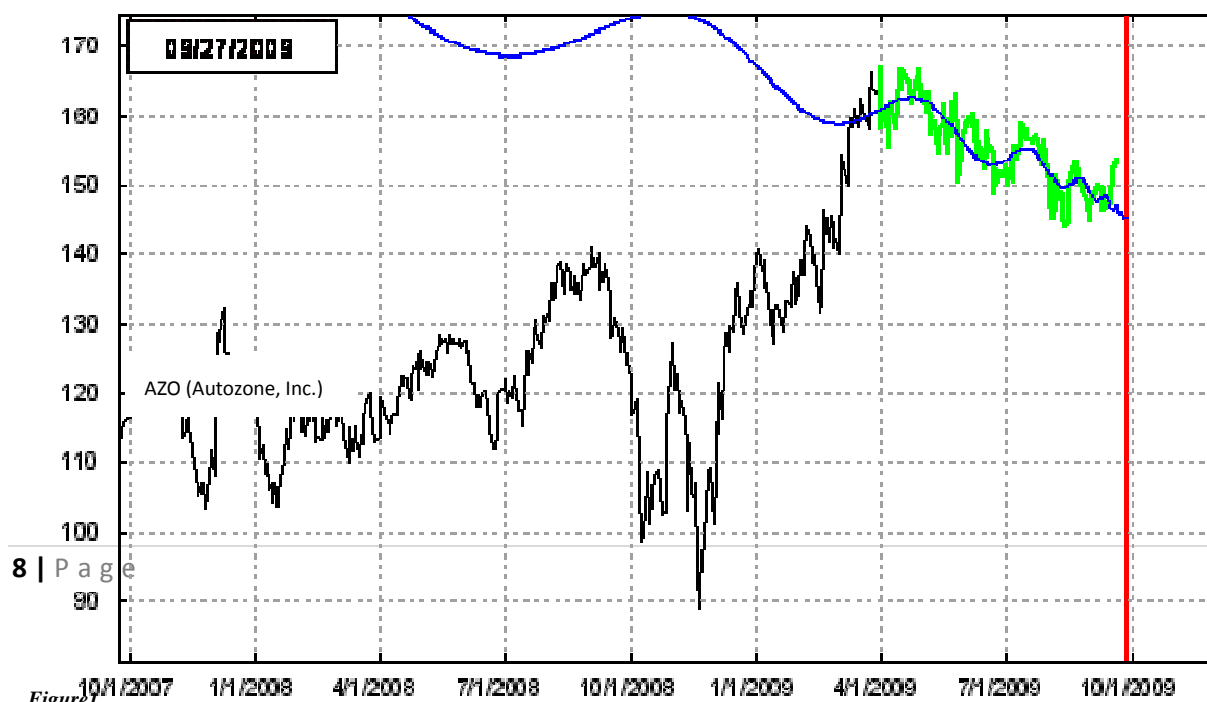
Our objective is to generate an annual total return in excess of the Russell 3000 Index over a full market cycle (three to five years) by investing in either an unleveraged long only portfolio of stocks (in the case of the two Arsenal Equity funds) or a leveraged long/short portfolio of stocks (in the case of the two Arsenal Long-Short funds) that we have identified as having above-average capital appreciation potential based on our proprietary quantitative screening process. Each fund's investment program is speculative and entails substantial risk. There can be no assurance that the investment objective of such fund will be achieved.

Each fund employs a multifactor quantitative ranking algorithm intended to 1) operationalize hypotheses regarding fundamental human behavior and 2) capitalize on the profit potential accruing thereto. We have developed this strategy over the past ten years.

### Trading Model

Our first screening process uses proprietary, independent weightings of multiple factors relating to earnings data generated by analysts for each stock covered our universe (all U.S.-listed common stocks and ADRs in the S&P COMPUSTAT database), as well as price data. The amalgam is a complex number for each constituent stock and the universe is ranked accordingly in ascending order. Candidates for long purchase and short sale are the top and bottom 5% of the universe, respectively.

For purposes of timing position entry and exit, the final candidates for long purchase and short sale are further screened a second time for a critical date signaling the "end of the trend." Based on a proprietary seven-factor model of interval analysis within price data,





approximately seven thousand (7,000) iterations are run nightly for each stock. The result (*Figure 1*) is either 1) a confirmation of the continued presence (discernible or not to the naked eye) of an upward (long candidates) or downward (short candidates) “trend” in the coming thirty (30) days, or 2) a disconfirmation in which case the stock is eliminated from consideration for the long or short portfolio. The remaining stocks constitute the final long and short portfolios. The portfolios are screened daily after initial investment using this seven-factor model. Any time a disconfirmation alert is triggered for a stock, the position is liquidated and thereby removed from the portfolio. This exercise is intended to minimize losses by cutting them quickly and to maximize gains by letting the winners run until a disconfirmation signal.

## **PortfolioStructure**

The Fund’s long and short portfolios will each typically consist of approximately 200 stocks without regard for market capitalization, subject to prevailing market conditions. Depending upon the level of volatility in financial markets, as measured by the CBOE volatility index (VIX), the portfolio will be rebalanced in full on a weekly, bi-weekly or monthly basis because our proprietary research and experience show this to be fundamental to achieving the our investment objectives. The overall portfolio will be market (dollar) neutral while the long portfolio holdings may be equally weighted and the short portfolio holdings may be capitalization weighted at both the time of initial investment and date of each periodic rebalancing. However, situations may subsequently arise which cause a portion of the portfolio to increase or decrease in value such that individual securities deviate from their initial weighting. In such situations, the Manager may use portfolio management judgment to maintain, increase or reduce affected positions and employ options hedges, futures hedges and/or stop-losses.

Volatility permitting, it is intended that there will be a “normal” full quarterly rebalancing and a monthly “Paretian” rebalancing: the stocks responsible for 80% of the losses to date will be liquidated and the proceeds reinvested equally across those stocks responsible for 80% of the gains to date. In reality, as in theory, approximately 20% of the actual names in the portfolio tend to be responsible for 80% of the gains or losses, as the case may be. Thus, while the portfolio may begin each quarter market (dollar) neutral, depending upon the return profile of the portfolio (and what that says about the overall market), the portfolio may end up migrating temporarily to a net long or net short position without regard for market capitalization or style until the next full quarterly rebalancing. As a result, the portfolio “adapts” to current market conditions.

Portfolio turnover is expected to be very high and tax efficiency is not an investment consideration. Foreign securities are ordinarily purchased only through ADRs or securities listed and traded on a major U.S. exchange. We expect to use leverage as well as stock options and futures periodically for hedging purposes, but does not expect to invest in private placements, non-marketable securities or derivatives except in special circumstances. The amount of leverage employed will depend upon the level of volatility in financial markets, as measured by the CBOE volatility index (VIX). We may use stock and index options and/or

futures as risk control measures from time to time when attempting to preserve gains and/or limit losses in the Fund. No fund will not hold such investments for speculative purposes.

In order to efficiently provide for redemptions, to preserve assets for investment and during periods of market volatility when we believe that temporary defensive strategies are in the best interests of a fund, a portion (up to 100%) of such fund's assets may be held in cash or cash equivalents. Cash reserves are ordinarily invested in money market funds or in high quality, liquid securities with maturity of one year or less. Given the nature of the quantitative investment strategy, under certain market conditions it is possible, yet highly unlikely, that the Fund may be invested 100% in equity securities (stocks, convertible debentures, convertible preferred stocks, warrants, ADRs, or their equivalents) or 100% in cash until the next monthly rebalancing date.

The investment objectives and methods summarized above represent our current intentions. Depending on conditions and trends in the securities markets and the economy in general, the Manager may pursue other objectives, employ other investment techniques or purchase any type of security or instrument that it considers appropriate and in the best interests of the Fund, whether or not described in this section. There can be no assurance that our investment strategy will achieve profitable results

*B. MATERIAL RISKS: An investment in one of the funds we manage involves financial and other risks and is suitable only for sophisticated investors for whom an investment in such fund does not represent a complete investment program and who fully understand and are capable of bearing the risks of an investment in such fund. Prospective investors should carefully review the risks involved in investing in such fund, and should evaluate the merits and risks of an investment in such fund in the context of their overall financial circumstances. The following material risks should be considered carefully by investors.*

**Past Performance Not Indicative of Future Results.** There can be no assurance that a fund will achieve its investment objective. The past investment performance of a fund or its similar predecessors may not be indicative of the future results of an investment in such fund.

**Speculative Nature of an Investment in the Fund; Trading Risks in General.** An investment in a fund subjects an investor to the risk of a complete loss of capital. No guarantee or representation is made that such fund's program will be successful, and investment results may vary substantially over time. The fund's investment program may utilize investment techniques such as options, which practices can, in certain circumstances, maximize the adverse impact to which such fund may be subject.

**Equity Securities.** Each fund invests primarily in common stocks of U.S. issuers. Equity securities fluctuate in value, often based on factors unrelated to the value of the issuer of the securities. The market price of equity securities may be affected by general economic and market conditions, such as a broad decline in stock market prices, or by conditions affecting specific issuers, such as changes in earnings forecasts.

**Reliance on Models.** The success of a fund will depend on certain proprietary models that we developed being an accurate predictor of future market prices, and upon a continuation of the past correlation between equity market returns and the factors used in the models. To the extent that such models or the assumptions underlying them are not correct, such fund may sustain losses. Even if such correlation exists in the future, they may not exist over the period of any particular investment in such fund. The Manager has broad discretion to modify its models without notice to investors.

**Limited Liquidity.** An investment in a fund should be regarded as illiquid and, as such, is suitable only for sophisticated investors who have no need for liquidity in such investment. An investment in a fund provides limited liquidity, since interests in such fund are not freely transferable and withdrawals are generally permitted only at certain periods upon prior written notice. Additional transfer restrictions may be imposed in the future and the right of withdrawal (if any) may be limited or suspended, either for temporary periods or permanently. Presently, there is no secondary market for investors' interests in the Fund and none is expected to develop in the future.

**Short Sales.** Either of the two Arsenal Long-Short funds may engage in "short sale" transactions. A short sale involves the sale of a security that a fund does not own in the hope of purchasing the same security (or a security exchangeable there for) at a later date at a lower price. To make delivery to the buyer, such fund must borrow the security, and such fund is obligated to return the security to the lender, which is accomplished by a later purchase of the security by such fund. Short selling can result in profits when the prices of the securities sold short decline. In a generally rising market, a fund's short positions may be more likely to result in losses because the environment would be more conducive for the securities sold short to increase in value. A short sale involves the theoretically unlimited risk of an increase in the market price of the securities sold short.

**Options.** Each fund may invest in, or write, options. The purchaser of a put or call option runs the risk of losing such purchaser's entire investment in a relatively short period of time if an option expires unexercised. The uncovered writer of a call option is subject to a risk of loss should the price of the underlying security increase, and the uncovered writer of a put option is subject to a risk of loss should the price of the underlying security decrease.

**Leverage.** Each of the two Arsenal Long-Short funds expect to use "leverage", or borrowing, in order to enhance its investment performance. Under such circumstances, there are no restrictions on a fund's borrowing capacity other than limitations imposed by lenders and any applicable credit regulations. Loans generally may be obtained from securities brokers and dealers or from other financial institutions, and will be secured by securities or other assets of the fund pledged to such institutions. Borrowing will tend to magnify the profits or losses of the fund. The level of interest rates at which a fund can borrow will affect the operating results of such fund. If securities pledged to brokers to secure a fund's margin accounts decline in value, the fund could be subject to a "margin call," pursuant to which the fund must either deposit additional funds with the broker, or suffer mandatory liquidation of the pledged

securities to compensate for the decline in value. In the event of a sudden precipitous drop in the value of the fund's assets, the fund might not be able to liquidate assets quickly enough to pay off its margin debt.

***Brokerage and Other Arrangements.*** In selecting brokers or dealers to effect portfolio transactions, we need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. In instances where we have the ability to negotiate such terms, then we may cause commissions to be paid to a broker or dealer that furnishes or pays for research or other services at a higher price than that which might be charged by another broker or dealer for effecting the same transaction. We may use research services obtained by the use of commissions arising from portfolio transactions may be used by us in our other investment activities, and, therefore, a fund may not, in any particular instance, be the direct or indirect beneficiary of the research and/or other services provided.

***In-Kind Distributions.*** If significant withdrawals are requested, we may not be able to liquidate a fund's investments at the time such withdrawals are requested or may be able to do so only at prices which we believe do not reflect the true value of such investments and which would adversely affect the return to the investors in a fund. We do not currently intend to make distributions in-kind of a fund's portfolio investments; however, under the foregoing circumstances, the fund investors may receive in-kind distributions of securities or obligations in a fund's portfolio. Such securities and obligations may not be readily marketable or saleable and may have to be held by the Interest holders for an indefinite period of time.

***Limited Reporting.*** While we anticipate providing annual financial reports to fund investors (which may or may not be audited), we are not required to provide periodic pricing and valuation information to fund investors.

***Reliance on the Manager.*** We have complete discretion in investing a fund's assets. A fund's success depends, to a great extent, on our ability to identify successful investments and strategies. Our withdrawal as the manager of a fund could have a material adverse effect on the investment results of such fund. In addition, no assurance can be given that we will be able to retain our key personnel or to engage new personnel with comparable investment management skills. We do not currently maintain any "key man" insurance covering any of their key personnel.

***Conflicts of Interest.*** We may, from time to time, face conflicts of interest relating to its dealings with a fund. We and our principals may invest for our own accounts, as well as for accounts that they manage for other clients or other investment funds which use a similar investment strategy, and other accounts that may invest only in long positions selected using the same methodology. Such other funds and accounts may be subject to different fees and expenses, and we or our affiliates may own interests in some of such other funds and accounts. In the ordinary course of its activities, we may, from time to time, buy or sell for other accounts the same securities as those traded by a fund. We will determine how investment and trading opportunities are allocated among the accounts that we manage, even though it may face potential conflicts of interest in making such allocations. We will act in a

manner that we consider fair and equitable in allocating investment opportunities amongst a fund and the accounts of our other clients. We may (but are not required to) aggregate orders of a fund with orders for other accounts. Such aggregation of orders may not always be to the benefit of the Fund with regard to the price or quantity executed. The performance of different accounts managed by us may vary.

We and our affiliates may engage in other activities, and will have complete discretion to determine how much time and attention we will devote to the affairs of a fund. We determine how certain expenses are allocated amongst a fund and other accounts managed by us. We may cause accounts managed by us, including a fund and other accounts in which we or an affiliate may own an interest, to enter into transactions with each other. To the extent permissible under applicable securities laws, we may determine the value of illiquid securities held by a fund. We may enter into side agreements with specific investors in a fund providing for different fees, withdrawal rights, access to information about a fund's investments, or other matters relating to an investment in a fund. We may receive benefits from brokers and counterparties selected to execute transactions on behalf of a fund.

We do not typically maintain cash balances in client accounts except as may occur as a result of the sale of investments and the corresponding pending reinvestment thereof. All such cash balances are invested in highly rated, liquid short term instruments.

## ITEM 9: DISCIPLINARY INFORMATION

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

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

- A. Neither we nor any of our management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither we nor any of our management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.
- C. Our managing member, Jeffrey A. Sexton, has a law degree.
- D. We do not recommend or select other investment advisers for our clients while at the same time receiving compensation, directly or indirectly, for those advisers, and we do not have any other business relationships with any such other advisers.

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

A. We have adopted a written Code of Ethics in accordance with SEC Rule 204A-1. Such Code of Ethics, among other things, requires our associated persons to report their personal securities holdings and transactions. Our Chief Compliance Officer reviews such personal securities holdings and transactions on a quarterly basis. A copy of our Code of Ethics is available to clients and prospective clients upon request. We have adopted a firm wide policy statement outlining our prohibition on insider trading by us or our supervised persons. Our Code of Ethics describes the high fiduciary standards that we expect from our associated persons. It also contains provisions requiring our supervised persons to comply with applicable Federal securities laws and to report any violations of such Code.

B. We are the general partner of each of the four pooled investment funds that we manage. Other than with respect to such funds, neither we nor any of our related persons recommends to clients, or buys or sells for client accounts, securities in which we or a related person has a material financial interest.

C. Neither we nor any of our related persons invests in the same securities (or related securities, e.g., warrants, options or futures) that we (or a related person) recommends to clients.

D. Neither we nor any of our related persons recommends securities to clients, or buys or sells securities for client accounts, at or about the same time that we or a related person buys or sells the same securities for our (or the related person's) own account.

**PRIVACY POLICY:** We are committed to fully protecting the confidentiality of our clients' data (including each client's non-public personal information), not use it for any purpose other than maintaining or servicing the applicable client's account, and not divulge it even after a client terminates such client's investment relationship with us. Except as needed by third party service providers to service a client's account, we do not disclose non-public personal information about our clients to non-affiliated third parties except as permitted or required by law.



## ITEM 12: BROKERAGE PRACTICES

A. 1. Research and Other Soft Dollar Benefits. We select the brokers that execute the transactions for our clients. In selecting brokers or dealers to effect portfolio transactions on behalf of our clients, we consider such factors as price, the ability to effect the transactions, the brokers' or dealers' facilities, reliability and financial responsibility, special execution capabilities, block trading and block positioning capabilities, willingness to execute related or unrelated difficult transactions in the future, efficiency of execution and error resolution, quotation services, the availability of stocks to borrow for short trades, custody, record keeping and similar services, and any research or investment management-related services and equipment provided by such brokers or dealers. We need not solicit competitive bids and do not have an obligation to seek the lowest available commission cost. We may cause an amount to be paid to a broker or dealer that furnishes research, services or equipment at a higher price than that which might be charged by another broker or dealer for effecting the same transaction, provided that we determine in good faith that the amount of commissions charged is reasonable in relation to the value of the brokerage and research or investment management-related services provided by such broker or dealer. At any given point in time, we may have a soft dollar arrangement with one or more brokerage firms to receive free research and other services if we direct a minimum amount of brokerage commissions from client transactions to the brokerage firm over a given period of time. We monitor our discretionary brokerage allocation to assure that those brokerage firms that provide us with quality research and investment information receive sufficient brokerage business each year and we may allocate more brokerage to those firms that provide us with better research and execution capabilities than other firms. In determining how much of a product or service should be paid with clients' commissions and how much we should pay, we evaluate how the product or service is being used by each person that uses the product or service, and how many persons are using the product or service. We utilize clients' commissions to pay for that portion of the product or service that is being used by us to assist in investment decision-making and/or placing orders for clients' transactions with brokerage firms.

2. Brokerage for Client Referrals. In selecting or recommending broker-dealers, neither we nor any of our related persons receives client referrals from a broker-dealer or third party.

3. Directed Brokerage.

a. We do not routinely recommend, request or require that a client direct us to execute transactions through a specified broker-dealer.

b. We do not permit any of our clients to direct brokerage.

B. We may aggregate the purchase or sale of securities for various client accounts in quantities sufficient to obtain reduced transaction costs (known as bunching), but only in circumstances in which we are reasonably certain that it will result in lower overall transaction costs for each of the clients involved.

#### ITEM 13: REVIEW OF CLIENT ACCOUNTS

A. We review accounts daily for performance and holdings accuracy.

B. The Reviewer/Administrator of the private limited partnerships that we manage is Folio Administrators Ltd located in the British Virgin Islands. The Administrator generates monthly client statements using information provided by, Jeffries & Co., the custodian of our clients' assets.

C. We provide our clients annual audited financial statements within 120 calendar days following each calendar year end. These written reports are prepared by our independent outside accounting firm, Deming Malone, Osteroff & Livesay, located in Louisville, Kentucky.

#### ITEM 14: PAYMENT FOR CLIENT REFERRALS

A. We do not have any arrangements whereby someone who is not a client of ours provides an economic benefit to us for providing investment advice or other advisory services to our clients.

B. Neither we nor any of our related persons directly or indirectly compensates any person who is not our employee for client referrals.

#### ITEM 15: CUSTODY

- A. Jeffries & Co., a broker-dealer registered with FINRA, is custodian for all of our clients' assets.
- B. Our clients receive monthly account statements and should carefully review those statements.

#### ITEM 16: INVESTMENT DISCRETION

We accept discretionary authority to manage securities accounts on behalf of clients. This discretionary investment authority is set forth in the investment management agreements applicable to our clients' accounts and cannot be changed without our approval.

#### ITEM 17: VOTING CLIENT SECURITIES

- A. We do not have, and will not accept, authority to vote client securities.
- B. We do not routinely rely on one or more third-party proxy voting services to advise us in connection with voting client securities.
- C. We do not have authority to vote client securities. You will receive proxies or other solicitations directly from your custodian. You may contact us with questions about a particular solicitation if you so choose.

#### ITEM 18: FINANCIAL INFORMATION

- A. We do not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.
- B. We do not have any financial condition that is reasonably likely to impair our ability to meet our contractual commitments to our clients.
- C. We have not been the subject of a bankruptcy petition at any time during the past ten years.

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