

Item 1: Cover Page

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

March 31, 2011

Peregrine Diversified Investment Services Corp.

SEC File Number: 801-72025

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This brochure provides information about the qualifications and business practices of Peregrine Diversified Investment Services Corp. If you have any questions about the contents of this brochure, please contact us at (312) 775-3557 or rtandaric@pdivadvisors.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 Peregrine Diversified Investment Services Corp. is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2: Material Changes

Item 2 is not applicable, as this is the initial Part 2 of Form ADV of Peregrine Diversified Investment Services Corp.

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Item 4: Advisory Business

A. Description of Your Advisory Firm

Peregrine Diversified Investment Services Corp. ("PDIV") is an Illinois corporation owned and controlled by Peregrine Financial Group, Inc. PDIV was formed on November 18, 2010, to provide investment advisory services to high-net-worth individuals, corporations, partnerships, trusts and other legal entities for clients' investment assets as further described below.

NOTE: AS USED THROUGHOUT THIS DOCUMENT, REFERENCES TO SERVICES OFFERED BY PDIV MAY ALSO INCLUDE SERVICES OFFERED BY AND THROUGH ITS INDIVIDUAL INVESTMENT ADVISER REPRESENTATIVES.

B. Description of Advisory Services Offered

PDIV, through its investment adviser representatives, manages investment advisory accounts on both a discretionary and nondiscretionary basis for affluent and high-net-worth individuals, as well as corporations, partnerships, trusts and other legal entities. Services may include, at the client's election, some or all of the following:

- Advice with respect to the appropriate allocation of assets.
- Advice with respect to the creation of diversified portfolios consisting of recommended mutual funds, exchange-traded funds, or other individual equity or debt securities.
- Recommendations with respect to retention of non-PDIV investment managers.
- Recommendations with respect to portfolio hedging, monetization, and income-generation strategies involving, for example, the use of exchange listed or over-the-counter options or forward instruments.
- Proprietary private pooled investment vehicles, which may or may not be separately formed and segregated as an investment company, not subject to registration under the Investment Company Act of 1940.
- Discretionary management services based on clients' individual personal and financial circumstances

C. Client-Tailored Services and Client-Imposed Restrictions

C.1. Financial Planning Services

Clients will receive a written or oral report (depending on the client's preference) that provides a detailed financial plan designed to help achieve the client's stated financial goals and objectives. Based on the client's needs, the financial planning services may include preparation of the following items:

- A recommended asset allocation that serves to diversify the client's portfolio among different categories of investments such as small, medium and large capitalization securities; corporate and government fixed income (short-, intermediate- and long-term maturities); emerging market securities (i.e., foreign issuers); and such other asset categories that are suitable in light of the client's investment goals, objectives and risk tolerance.
- An investment policy statement setting forth the investment plan of the client with specific direction in terms of diversification requirements, tax issues, estate planning issues, risk tolerance, retirement and other identified objectives of the client including a targeted rate of return objective.
- A retirement plan that serves to identify whether the client is saving enough and investing in a way that meets retirement objectives in light of the client's financial circumstances and risk tolerance.
- Cash flow projections to ensure the client can meet daily living expenses and obligations.
- An insurance plan to meet the needs of the client, taking into account family, business and other financial objectives of the client.
- An estate plan to ensure that wealth transition, tax and related issues are met in accordance with the client's preferences. In many instances an outside attorney will need to be hired to handle specific legal issues that arise in the formation and implementation of an estate plan.

PDIV and its investment adviser representatives gather required information through in-depth personal interviews and questionnaires. Information gathered includes a client's current financial status, investment objectives, future goals and attitudes towards risk. Related documents supplied by the client are carefully reviewed, and a report is prepared covering one or more of the above-mentioned topics as directed by the client.

C.2. Discretionary Authority

PDIV, through its investment adviser representatives, may exercise discretionary authority over some, but not all, client accounts. For clients who elect to give PDIV discretion over their investment advisory accounts, PDIV, through its investment adviser representatives, will make all investment decisions, including selecting, retaining and replacing non-PDIV investment managers and selecting proprietary or third-party investment strategies. PDIV, through its investment adviser representatives, will also make determinations with respect to purchasing, holding or selling individual securities, including options, equities, fixed income (taxable and non-taxable) products, exchange-traded funds and mutual funds. PDIV, through its investment adviser representatives, will also make investment decisions regarding portfolio asset allocation and rebalancing, and otherwise have full discretionary authority over the client's investment portfolio pursuant to a written investment advisory agreement between the client and PDIV.

C.3. Non-Discretionary Authority

If PDIV does not have discretionary authority over a client's account, the client is required to do the following, as appropriate to the client's account:

- Specifically approve and initiate the purchase or sale of any security recommended by PDIV and/or its investment adviser representative(s).
- Specifically select the appropriate investment strategy or portfolio allocation model.
- Specifically determine to engage and undertake the engagement of any non-PDIV investment managers recommended by PDIV.

Similarly, to the extent the client desires to use the services of a broker-dealer, custodian or other professional other than those specifically recommended by PDIV, the client is responsible for making appropriate arrangements directly with such service provider. Such other client-selected service providers are subject to PDIV's approval. Purchases and sales of securities, the retention of non-PDIV investment managers, and the use of the services of such providers as broker-dealers, custodians, due diligence providers, performance measurement service providers, mutual funds, alternative investment providers or other professionals, will require the client to pay fees and charges in addition to the fees payable to PDIV with respect to the advice and other services that such service providers render to the client.

C.4. Alternative Investments

PDIV, through its investment advisor representatives, may from time to time suggest various alternative investments to clients. These investments may include opportunities to invest in companies that are affiliated with PDIV or in an investment sponsored by PDIV, or an affiliate company where such affiliate earns a fee separate and distinct from any PDIV-related fee charged by PDIV. If an advisor affiliate earns a fee from the client's investment, such fees will be disclosed to the client before effecting the transaction.

The client should be aware of the potential conflict of interest in that PDIV is economically incented to recommend investments in securities where an affiliate of PDIV is the issuer, manager, sponsor, or general partner of such investments or where PDIV or an affiliate has some sales or financial interest.

C.4. PDIV's Client-Centric Investment Philosophy

Each client's account will be managed on the basis of the client's financial situation and investment objectives, and in accordance with any reasonable restrictions imposed by the client on the management of the account. See items 4 above. Clients may impose reasonable restrictions on the management of their accounts. For example you may restrict the type or amount of security to be purchased in the portfolio.

D. Wrap Fee Programs

PDIV offers the following two wrap account advisory programs.

D.1 Discretionary Investment Wrap Program

This program is offered as a wrap fee program whereby PDIV functions as the wrap fee program sponsor. PDIV, through its investment advisor representatives, will invest and reinvest the securities, cash and/or other investments held in the client's portfolio in accordance with the client's risk tolerance, investment goals and objectives, and other information provided by the client to PDIV. Consistent with the information in the client profile, investments may be made in, but are not limited to, securities of any kind issued by U.S. or foreign issuers, including common and preferred stocks, warrants, options, rights, corporate or government bonds or notes, and shares of money market mutual funds. The term "securities" shall refer to securities or to all permitted investments in the client's portfolio, as applicable.

Clients are required to grant PDIV and the PDIV investment advisor representatives the limited right to invest on a discretionary basis all or a portion of the assets in the client's portfolio pursuant to the specific trading instructions provided by the investment advisor representatives appointed and selected by the client. Clients who meet the program's suitability criteria will be eligible for participation in the program for an all-inclusive fee.

For accounts with less than \$25,000 in equity value, PDIV may, in its sole discretion, charge transaction fees in addition to PDIV's advisory fee.

D.2 Non-Discretionary Investment Wrap Program

This program is offered as a wrap fee program whereby PDIV functions as the wrap fee program sponsor. PDIV, through its investment advisor representatives, will invest and reinvest securities, cash and/or other investments in the account in accordance with the client's risk tolerance, investment goals and objectives, restrictions imposed by the client, and such other information provided by the client to PDIV. Consistent with the information in the client profile, investments may be made in, but are not limited to, securities of any kind issued by U.S. or foreign issuers, including common and preferred stocks, warrants, options, rights, corporate or government bonds, or notes and shares of money market mutual funds.

For accounts with less than \$25,000 in equity value, PDIV may, in its sole discretion, charge transaction fees in addition to PDIV's advisory fee.

E. Client Assets under Management

PDIV manages client assets. As of March 31, 2011, PDIV manages \$500,000 in discretionary client assets and \$500,000 in non-discretionary client assets.

Item 5: Fees and Compensation

A. Methods of Compensation and Fee Schedule

A.1 Investment Advisory Fees

The annual fee for the provision of investment advisory services by PDIV will be charged as a percentage of assets under supervision by PDIV and will be computed in the following manner:

Basis point charge X average daily balance X the actual number of days/365 days

PDIV's asset-based fee schedule is as follows:

<u>Assets under Supervision</u>	<u>Annual Fee (%)</u>
\$0.00–\$249,999.99	3.00%
\$250,000.00–\$499,999.99	2.00%
\$500,000.00–\$999,999.99	1.75%
\$1,000,000.00–\$2,499,999.99	1.50%
\$2,500,000.00–\$5,000,000.00	1.25%
Over \$5,000,000.00	1.00%

PDIV does not require a minimum account value or charge a minimum fee for this service, and such fee schedule is negotiable.

A.2. Financial Planning Fees

PDIV charges hourly at \$ 500.00 per hour, or fixed rates mutually agreed upon by the client and PDIV when there are no investment assets to supervise on an ongoing basis. PDIV does not offer fixed-fee arrangements to all clients. Generally, the more complex the financial planning engagement, the higher the likelihood that fixed fees will be negotiated, as it is difficult with respect to complex cases to discern the exact number of hours required to provide services. In such cases, a fixed fee would be negotiated and then reevaluated at a later point to determine whether the fixed-fee compensation requires adjustment. Fixed fees are computed based upon an estimate of the hours required to perform services. Where the time spent can be accurately estimated, an hourly charge would apply. PDIV attempts to maintain parity with hourly and fixed charges while allowing some flexibility in estimation, taking into account case complexity and client-specific circumstances.

Invoices will be mailed out on a periodic basis reflecting completed work performed. Clients seeking to terminate this service must do so in writing.

A.3. Fees on Qualified Retirement Plans

There are three different and distinct fees charged on qualified retirement plans, such as a 401k, 403b or 457 accounts:

- First, there is the investment advisory fee charged by PDIV for advisory and/or account management services.
- Second, there is a fee charged by the mutual fund company held in the plan.
- Finally, there is a fee charged by the trustee, plan sponsor or plan administrator.

A description of each fee is detailed below. PDIV's fee for services will be charged as a percentage of assets under supervision by PDIV in accordance with the investment advisory agreement. PDIV's fee schedule is as follows:

<u>Assets Under Supervision</u>	<u>Annual Fee (%)</u>
\$0.00–\$999,999.99	1.25%
\$1,000,000.00–\$5,000,000.00	1.00%
Over \$5,000,000.00	0.75%

Some of PDIV's services involve investments in mutual funds. Mutual funds often make up the investments held in qualified retirement accounts such as a 401k, 403b or 457 plans. All advisory fees paid to PDIV for its services are in addition to the fees and expenses charged by mutual funds to all of their shareholders. Each mutual fund's fees and expenses are described in the fund's prospectus, which is available from the mutual fund and, upon request, can be provided by PDIV. These fees will generally include a management fee, shareholder servicing fee, other fund expenses and sometimes a distribution fee. Depending on the type of mutual fund shares the client purchases, the fund may also have sales charges that apply in various circumstances. The client may therefore directly and indirectly pay two levels of investment management fees: one level of fees directly to PDIV, and a second level of fees indirectly to the mutual funds in which the client's assets are invested. Clients could reduce their total investment management costs by investing directly in mutual funds themselves without using an investment advisor's services. PDIV and its representatives may receive Rule 12b-1 fees directly from mutual fund sponsors with respect to mutual funds held in client accounts.

Moreover, for accounts held as part of a 401k, 403b or other employer-sponsored plans, additional fees may be paid to the plan trustee, administrator or plan sponsor. For these types of accounts, the plan fees and expenses are described in the plan documents. Clients are referred to their plan administrator for information specific to these fees. Clients may also be subject to brokerage account termination fees and annual retirement account fees assessed by Sterne Agee & Leach, Inc., as retirement plan account custodian.

A.4. Fees on Alternative Investments

High-net-worth and affluent clients who qualify as accredited investors under the Securities Act of 1933, and/or qualified purchasers under the Investment Company Act of 1940, may receive advice from PDIV on the integration of mutual funds or fund-of-funds into their overall investment portfolio. Fund-of-funds are structured as collective

investment vehicles (e.g., limited partnerships or limited liability companies) and may own interests in one or more other collective investment vehicles that are committed to a particular investment strategy such as convertible arbitrage, fixed-income arbitrage, distressed debt investments, or long/short strategies that may include the purchase and sale of exchange listed or over-the-counter options and the securities underlying such options.

Clients should be aware that PDIV is deemed to have a conflict of interest when it recommends investment in mutual funds and/or fund-of-funds where PDIV or one of its affiliates acts as a sponsor, general partner, or manager of such mutual funds and/or fund-of-funds and earns fees in addition to and separate from PDIV fees paid to PDIV by the client.

PDIV's investment advisory, financial planning, qualified retirement plan and alternative investment fees are negotiable.

B. Client Payment of Fees

B.1. Whether PDIV Deducts Fees from Client Assets or Bills Clients for Fees

PDIV will deduct fees from a client account for client assets held at Schwab Advisor Services, Fidelity Institutional Wealth Services through National Financial Services, LLC, or Sterne Agee & Leach, Inc. through BEST Direct Securities, LLC. The client is required to pay the fee on the first business day of each calendar month or quarter.

If directed by the client and approved by PDIV, the client may elect to be invoiced for advisory services. Such invoices will be provided to the client by the investment advisory representative each billing period. All checks for advisory services should be made out to "Peregrine Diversified Investment Services Corp." and forwarded to:

Peregrine Diversified Investment Services Corp.
Attention: Accounting Department
311 W. Monroe Street, Suite 1300
Chicago, IL 60606

For accounts billed in advance, the initial monthly or quarterly fee will be based on the average daily account value calculated from the account funding date and will become due the following business day. Thereafter, the monthly or quarterly fee will be based on the average daily account value of the previous period and will become due the first business day of the next billing period.

C. Additional Client Fees Charged

The fees charged by PDIV do not include fees charged by any mutual fund, variable annuity or exchange-traded fund. The management fees for investment managers are generally disclosed in each investment manager's disclosure document (Part 2 of Form ADV or other disclosure document in lieu of Part 2) or, in the case of a mutual fund or

variable annuity, the fund or annuity's prospectus. Clients are advised to read these materials carefully before investing.

All fees paid to PDIV for investment advisory services are separate and distinct from the fees and expenses charged by any mutual funds, exchange-traded funds, investment managers, broker-dealers and custodians retained by clients. Such fees and expenses are described in each mutual fund and variable annuity prospectus, each non-PDIV investment manager's Form ADV or similar disclosure statement, and by any broker-dealer or custodian retained by the client. Mutual fund, variable annuity and non-PDIV investment manager fees will generally include a management fee, fund expenses and related fees. If a mutual fund also imposes sales charges, the client may pay an initial or deferred sales charge as further described in the fund's prospectus.

Certain exchange-traded funds pay advisory fees to their investment advisors, which reduces the net asset value of the fund. Some exchange-traded funds are organized as unit investment trusts and do not have an investment advisor. However, all exchange-traded funds do incur expenses related to their management and administration that are analogous to an investment advisor's management fee. These expenses affect the value of the investment. For retirement accounts governed by ERISA, the PDIV fee may be reduced by 12b-1 fees paid by the mutual funds held in such retirement accounts. Clients may be subject to related brokerage account termination fees assessed by account custodians. See Item 12 of this Brochure for additional information concerning brokerage fees and other transaction costs.

D. Prepayment of Client Fees

For accounts billed in advance, the initial monthly or quarterly fee will be based on the average daily account value since the account funding date and will become due the following business day. Thereafter, the monthly or quarterly fee will be based on the average daily account value of the previous period and will become due the first day of the next billing period.

Asset-based fees are subject to the investment advisory agreement between the client and PDIV. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar month or quarter. Adjustments for significant contributions to and distributions from a client's portfolio are prorated for the quarter in which the change occurs.

A client agreement may be canceled at any time, by either party, for any reason upon receipt of written notice. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will become due and payable. To obtain a refund of any unpaid fees, you may contact PDIV at:

Peregrine Diversified Investment Services Corp.
Attn: Accounting Department
311 W. Monroe Street, Suite 1300
Chicago, IL 60606

E. External Compensation for the Sale of Securities to Clients

Other than the receipt of commission revenue on the sale of securities products and the receipt of mutual fund 12b-1 selling revenue by PDIV's affiliate broker-dealer, BEST Direct Securities, LLC, neither PDIV nor its supervised persons will receive any form of compensation other than that derived from advisory fees collected from its clients.

E.1. Conflicts

There is an economic incentive for PDIV to effect advisory client securities transactions through its affiliate broker-dealer, BEST Direct Securities, LLC.

PDIV carefully guards against conflicts of interest, and PDIV's conflict of interest policy is governed by its Code of Ethics, which sets forth prohibited transactions and procedures for reporting and monitoring the trading activity and any violation of the fiduciary duty owed to clients. Among other things, advisors are not allowed to knowingly take advantage of a client's opportunity or take any action (or refrain from any action) that is inconsistent with the fiduciary obligations to the client. Advisors must also avoid any actual or potential conflict of interest or any abuse of the advisor's position of trust and responsibility. A violation of any provision in the Code of Ethics may result in sanctions against the advisor, which include reprimands, restriction on activities, disgorgement and termination of employment.

PDIV's Chief Compliance Officer is responsible for enforcing PDIV's Code of Ethics. Disclosures to clients regarding conflicts is provided through this Brochure and such other product-specific disclosures as required under PDIV's Supervisory Procedures, Compliance Manual and Code of Ethics.

E.2. Client Purchase of Investment Products from Unaffiliated Brokers or Agents

If directed by the client, and approved by PDIV, the client may select an alternate broker-dealer or custodian to open and maintain an account. With such arrangements, the client will be billed in advance on a quarterly basis, unless otherwise directed by the client's investment advisory representative to bill monthly in advance. The fee will be based on the settled account balance for the last business day of the previous period and shall become due the first business day of the next billing period. PDIV does not participate in any additional compensation for this type of relationship.

E.3. Revenue from Commissions

PDIV will not receive commission revenue from its advisory clients for the sale of investment products. PDIV's compensation is limited to advisory fees.

E.4. Advisory Fees and Commissions

PDIV does not charge commissions in addition to its advisory fees for accounts held at Schwab Advisor Services or Fidelity Institutional Wealth Services which clears through National Financial Services, LLC. For advisory accounts held at Sterne Agee & Leach, Inc.,

through BEST Direct Securities, LLC, that are invested in mutual funds or exchange-traded funds, PDIV, or one of its affiliates, may receive third-party selling expense allowances (e.g., 12b-1 fees). PDIV may discount the investment advisory fee that it charges for accounts invested in mutual funds that are held at Sterne Agee & Leach, Inc., through BEST Direct Securities, LLC, to offset any selling expenses incurred by the client. PDIV does not mark-up or mark-down any trades for its advisory accounts.

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

PDIV does not offer or receive performance-based fees (i.e., fees based on a share of capital gains on or capital appreciation of the assets of a client).

Item 7: Types of Clients

PDIV, through its investment adviser representatives, generally provides investment advice to the following types of clients:

- Individuals
- Businesses
- Partnerships
- Trusts, estates or charitable organizations
- Pension and profit sharing plans

PDIV does not require a minimum account value or charge a minimum fee for its advisory services. For PDIV-sponsored wrap accounts with less than \$25,000 in equity value, PDIV may, at its sole discretion, charge transaction fees in addition to the PDIV advisory fee.

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

PDIV and its investment adviser representatives, are responsible for identifying and implementing the methods of analysis used in formulating investment recommendations to clients. The methods of analysis may include quantitative methods for optimizing client portfolios, computer-based risk/return analysis, and statistical and/or computer models utilizing long-term economic criteria. PDIV may retain independent third parties to work in conjunction with its executive management team to provide input and guidance for the investment direction communicated by the firm. Such third-party providers will function as a de facto investment committee. In addition, PDIV may utilize third-party software to assist in formulating investment recommendations to clients.

A. Methods of Analysis and Investment Strategies

A.1 Mutual Funds, Exchange Traded Funds, Independent Investment Managers and Pooled Investment Vehicles, Individual Equity and Fixed Income Securities

PDIV may recommend (i) separate account managers to manage client assets; (ii) no-load and load-waived mutual funds and individual securities (including fixed income instruments); and (iii) pooled investment vehicles. Such management styles may include, among others, large-cap, mid-cap and small-cap value, growth and core; international and emerging markets; and alternative investments. PDIV may also assist the client in selecting one or more appropriate manager(s) for all or a portion of the client's portfolio. Such managers typically manage assets for clients who commit to the manager a minimum amount of assets established by that manager—a factor that PDIV will take into account when recommending managers to clients.

A description of the criteria to be used in formulating an investment recommendation for mutual funds, exchange traded funds (ETFs), individual securities (including fixed-income securities), managers, and pooled investment vehicles is set forth below.

PDIV has formed relationships with third-party vendors that

- provide a technological platform for separate account management;
- prepare performance reports;
- perform due diligence monitoring of mutual funds, managers and pooled investment vehicles; and
- perform billing and certain other administrative tasks.

PDIV may utilize additional independent third parties to assist it in recommending and monitoring individual securities, mutual funds, managers and pooled investment vehicles to clients as appropriate under the circumstances.

PDIV reviews certain quantitative and qualitative criteria related to mutual funds and managers and to formulate investment recommendations to its clients. Quantitative criteria may include:

- the performance history of a mutual fund or manager evaluated against that of its peers and other benchmarks;
- an analysis of risk-adjusted returns;
- an analysis of the manager's contribution to the investment return (e.g., manager's alpha), standard deviation of returns over specific time periods, sector and style analysis;
- the fund, sub-advisor or manager's fee structure; and
- the relevant portfolio manager's tenure.

Qualitative criteria used in recommending mutual funds or managers include the investment objectives and/or management style and philosophy of a mutual fund or manager; a mutual fund or manager's consistency of investment style; and employee turnover and efficiency and capacity. PDIV will discuss relevant quantitative and qualitative factors pertaining to its recommendations with clients prior to a client's determination to retain a mutual fund or manager.

Quantitative and qualitative criteria related to mutual funds and managers are reviewed by PDIV on a quarterly basis or such other interval as mutually agreed upon by the client and PDIV. In addition, mutual funds or managers are reviewed to determine the extent to which their investments reflect efforts to time the market, or evidence style drift such that their portfolios no longer accurately reflect the particular asset category attributed to the mutual fund or manager by PDIV (both of which are negative factors in implementing an asset allocation structure). Based on its review, PDIV will make recommendations to clients regarding the retention or discharge of a mutual fund or manager.

PDIV may negotiate reduced account minimum balances and reduced fees with managers under various circumstances (for example, for clients with minimum level of assets committed to the manager for specific periods of time, etc.). There can be no assurance that clients will receive any reduced account minimum balances or fees, or that all clients, even if apparently similarly situated, will receive any reduced account minimum balances or fees available to some other clients. Also, account minimum balances and fees may significantly differ between clients. Each client's individual needs and circumstances will determine portfolio weighting, which can have an impact on fees given the mutual funds or managers utilized. PDIV will endeavor to obtain equal treatment for its clients with mutual funds or managers, but cannot assure equal treatment.

PDIV will regularly review the activities of mutual funds and managers selected by the client. Clients that engage managers or who invest in mutual funds should first review and understand the disclosure documents of those managers or mutual funds, which contain information relevant to such retention or investment, including information on the methodology used to analyze securities, investment strategies, fees and conflicts of interest. Similarly, clients qualified to invest in pooled investment vehicles should review the private placement memoranda or other disclosure materials relating to such vehicles before making a decision to invest.

For individual equity and fixed income securities the methods of analysis may include fundamental and technical analysis; quantitative methods for optimizing client portfolios; computer based risk/return analysis; and statistical and/or computer models utilizing long-term economic criteria. In addition, PDIV reviews research material prepared by others, reviews corporate filings, corporate rating services, and a variety of financial publications.

PDIV may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to clients.

A.2. Material Risks of Investment Instruments

PDIV typically invests in equity securities, corporate debt instruments, municipal fixed income instruments, government securities including asset backed securities, and options on securities as detailed below:

- Equity securities
- Warrants and rights
- Mutual fund securities
- Exchange traded funds
- Corporate debt securities, commercial paper, and certificates of deposit
- Municipal securities
- U.S. and foreign government securities
- Private placements
- Option contracts on securities
- Pooled investment vehicles
- Structured products
- Government and agency mortgage-backed securities
- Corporate debt obligations
- Mortgage-backed securities
- Real Estate Investment Trusts ("REITs") Collateralized obligations

A.1.a. Equity Securities

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of

the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

A.1.b. Warrants and Rights

PDIV may invest in warrants and rights. Warrants are securities, typically issued with preferred stock or bonds that give the holder the right to purchase a given number of shares of common stock at a specified price and time. The price of the warrant usually represents a premium over the applicable market value of the common stock at the time of the warrant's issuance. Warrants have no voting rights with respect to the common stock, receive no dividends and have no rights with respect to the assets of the issuer.

Investments in warrants and rights involve certain risks, including the possible lack of a liquid market for the resale of the warrants and rights, potential price fluctuations due to adverse market conditions or other factors and failure of the price of the common stock to rise. If the warrant is not exercised within the specified time period, it becomes worthless.

A.1.c. Mutual Fund Securities

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

A.1.d. Exchange Traded Funds ("ETFs")

PDIV may invest in exchange traded funds (which may, in turn, invest in equities, bonds, and other financial vehicles). ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs[®], streetTRACKS[®], DIAMONDSSM, NASDAQ 100 Index Tracking StockSM ("QQQsSM") iShares[®] and VIPERS[®]. The funds could purchase an ETF to gain exposure to a portion of the U.S. or foreign market.

The funds, as a shareholder of another investment company, will bear their pro-rata portion of the other investment company's advisory fee and other expenses, in addition to their own expenses.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employ the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

A.1.e. Corporate Debt, Commercial Paper and Certificates of Deposit

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S. or foreign) and currency risk. If bonds have maturities of 10 years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds also have liquidity and currency risk.

Commercial paper and certificates of deposit are generally considered safe instruments, although they are subject to the level of general interest rates, the credit quality of the issuing bank and the length of maturity. With respect to certificates of deposit, depending on the length of maturity there can be pre-payment penalties if the client needs to convert the certificate of deposit to cash prior to maturity.

A.1.f. Municipal Securities

Municipal securities carry additional risks than those of corporate and bank-sponsored debt securities described above. These risks include the municipality's ability to raise additional tax revenue or other revenue (in the event the bonds are revenue bonds) to pay interest on its debt and to retire its debt at maturity. Municipal bonds are generally tax free at the federal level, but may be taxable in individual states other than the state in which both the investor and municipal issuer is domiciled.

A.1.g. U.S. and Foreign Government Securities

PDIV may invest in U.S. government securities. U.S. government securities include securities issued by the U.S. Treasury and by U.S. government agencies and instrumentalities. U.S. government securities may be supported by the full faith and credit of the United States.

A.1.h. Private Placements

Private placements carry significant risk in that companies using the private placement market conduct securities offerings that are exempt from registration under the federal securities laws, which means that investors do not have access to public information and such investors are not provided with the same amount of information that they would receive if the securities offering was a public offering. Moreover, many companies using private placements do so to raise equity capital in the start-up phase of their business, or require additional capital to complete another phase in their growth objective. In addition, the securities issued in connection with private placements are restricted securities, which means that they are not traded on a secondary market, such as a stock exchange, and they are thus illiquid and cannot be readily converted to cash.

A.1.i. Options on Securities

A call option is a contract under which the purchaser of the call option, in return for a premium paid, has the right to buy the security (or index) underlying the option at a specified price at any time during the term of the option. The writer of the call option, who receives the premium, has the obligation upon exercise of the option to deliver the underlying security against payment of the exercise price. A put option gives its purchaser, in return for a premium, the right to sell the underlying security at a specified price during the term of the option. The writer of the put, who receives the premium, has the obligation to buy, upon exercise of the option, the underlying security (or a cash amount equal to the value of the index) at the exercise price. The amount of a premium received or paid for an option is based upon certain factors including the market price of the underlying security, the relationship of the exercise price to the market price, the historical price volatility of the underlying security, the option period and interest rates.

A.1.j. Pooled Investment Vehicles

A pooled investment vehicle, such as a commodity pool or investment company, is generally offered only to investors who meet specified suitability, net worth and annual income criteria. Pooled investment vehicles sell securities through private placements and thus are illiquid and subject to a variety of risks that are disclosed in each pooled investment vehicle's confidential private placement memorandum or disclosure document. Investors should read these documents carefully and consult with their professional advisors prior to committing investment dollars. Because many of the securities involved in pooled investment vehicles do not have transparent trading markets from which accurate and current pricing information can be derived, or in the case of private equity investments where portfolio security companies are privately held with no publicly traded market, PDIV will be unable to monitor or verify the accuracy of such performance information.

A.1.k. Structured Products

Structured products are designed to facilitate highly customized risk-return objectives. While structured products come in many different forms, they typically consist of a debt security that is structured to make interest and principal payments based upon various assets, rates or formulas. Many structured products include an embedded derivative component. Structured products may be structured in the form of a security, in which case these products may receive benefits provided under federal securities law, or they may be cast as derivatives, in which case they are offered in the over-the-counter market and are subject to no regulation.

Investment in structured products includes significant risks, including valuation, liquidity, price, credit and market risks. One common risk associated with structured products is a relative lack of liquidity due to the highly customized nature of the investment. Moreover, the full extent of returns from the complex performance features is often not realized until maturity. As such, structured products tend to be more of a buy-and-hold investment decision rather than a means of getting in and out of a position with speed and efficiency.

Another risk with structured products is the credit quality of the issuer. Although the cash flows are derived from other sources, the products themselves are legally considered to be the issuing financial institution's liabilities. The vast majority of structured products are from high investment grade issuers only. Also, there is a lack of pricing transparency. There is no uniform standard for pricing, making it harder to compare the net-of-pricing attractiveness of alternative structured product offerings than it is, for instance, to compare the net expense ratios of different mutual funds or commissions among broker-dealers.

A.1.l. Government and Agency Mortgage-Backed Securities

The principal issuers or guarantors of mortgage-backed securities are the Government National Mortgage Association ("GNMA"), Fannie Mae ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). GNMA, a wholly owned U.S. government corporation within the Department of Housing and Urban Development ("HUD"), creates pass-through securities from pools of government-guaranteed (Farmers' Home Administration, Federal Housing Authority or Veterans Administration) mortgages. The principal and interest on GNMA pass-through securities are backed by the full faith and credit of the U.S. government.

FNMA, which is a U.S. government-sponsored corporation owned entirely by private stockholders that is subject to regulation by the secretary of HUD, and FHLMC, a corporate instrumentality of the U.S. government, issue pass-through securities from pools of conventional and federally insured and/or guaranteed residential mortgages. FNMA guarantees full and timely payment of all interest and principal, and FHLMC guarantees timely payment of interest and ultimate collection of principal of its pass-through securities. Mortgage-backed securities from FNMA and FHLMC are *not* backed by the full faith and credit of the U.S. government.

A.1.m. Corporate Debt Obligations

PDIV may invest in corporate debt obligations. Corporate debt obligations include corporate bonds, debentures, notes, commercial paper and other similar corporate debt instruments. Companies use these instruments to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and must repay the amount borrowed at maturity. Commercial paper (short-term unsecured promissory notes) is issued by companies to finance their current obligations and normally has a maturity of less than nine months. In addition, PDIV may also invest in corporate debt securities registered and sold in the United States by foreign issuers (Yankee bonds) and those sold outside the U.S. by foreign or U.S. issuers (Eurobonds).

A.1.n. Mortgage-Backed Securities

PDIV may invest in mortgage-backed securities, including pass-through securities and collateralized obligations. Mortgage-backed securities represent interests in a pool of mortgage loans originated by lenders such as commercial banks, savings associations, and mortgage bankers and brokers. Mortgage-backed securities may be issued by governmental or government-related entities, or by non-governmental entities such as special-purpose trusts created by commercial lenders.

Pools of mortgages consist of whole mortgage loans or participations in mortgage loans. The majority of these loans are made to purchasers of between one and four family homes. The terms and characteristics of the mortgage instruments are generally uniform within a pool but may vary among pools. For example, in addition to fixed-rate, fixed-term mortgages, PDIV may purchase pools of adjustable-rate mortgages, growing equity mortgages, graduated payment mortgages and other types. Mortgage poolers apply qualification standards to lending institutions, which originate mortgages for the pools as well as credit standards and underwriting criteria for individual mortgages included in the pools. In addition, many mortgages included in pools are insured through private mortgage insurance companies.

Mortgage-backed securities differ from other forms of fixed income securities, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or on specified call dates. Most mortgage-backed securities, however, are pass-through securities, which means that investors receive payments consisting of a pro rata share of both principal and interest (less servicing and other fees), as well as unscheduled prepayments as loans in the underlying mortgage pool are paid off by the borrowers. Additional prepayments to holders of these securities are caused by prepayments resulting from the sale or foreclosure of the underlying property or refinancing of the underlying loans. As prepayment rates of individual pools of mortgage loans vary widely, it is not possible to accurately predict the average life of a particular mortgage-backed security. Although mortgage-backed securities are issued with stated maturities of up to 40 years, unscheduled or early payments of principal and interest on the mortgages may shorten considerably the securities' effective maturities.

A.1.o. Non-Traded Real Estate Investment Trusts ("REITs")

A REIT is a tax designation for a corporate entity which pools capital of many investors to purchase and manage real estate. Many REITs invest in income-producing properties in the office, industrial, retail, and residential real estate sectors. REITs are granted special tax considerations which can significantly reduce or eliminate corporate income taxes. In order to qualify as a REIT and for these special tax considerations, REITs are required by law to distribute 90% of their taxable income to investors. REITs can be traded on a public exchange like a stock, or be offered as a non-traded REIT. REITs, both public exchange-traded and non-traded, are subject to risks including volatile fluctuations in real estate prices, as well as fluctuations in the costs of operating or managing investment properties, which can be substantial. Many REITs obtain management and operational services from companies and service providers which are directly or indirectly related to the sponsor of the REIT, which presents a potential conflict of interest that can impact returns on investments.

Non-traded REITs include: (1) A REIT that is registered with the Securities and Exchange Commission (SEC) but is not listed on an exchange or over-the-counter market (non-exchange traded REIT); or, (2) a REIT that is sold pursuant to an exemption to registration (Private REIT). Non-traded REITs are generally blind pool investment vehicles. Blind pools are limited partnerships which do not explicitly state their future investments prior to beginning their capital-raising phase. During this period of capital-raising, non-traded REITs often pay distributions to their investors.

The risks of non-traded REITs are varied and significant. Because they are not exchange-traded investments, they often lack a developed secondary market, thus making them illiquid investments. As blind pool investment vehicles, non-traded REITs' initial share prices are not related to the underlying value of the properties. This is because non-traded REITs begin and continue to purchase new properties as new capital is raised. Thus, one risk for non-traded REITs is the possibility that the blind pool will be unable to raise enough capital to carry out its investment plan. After the capital raising phase is complete, non-traded REIT shares are infrequently re-valued and thus may not reflect the true net asset value of the underlying real estate investments. Non-traded REITs often offer investors a redemption program where the shares can be sold back to the sponsor, however, those redemption programs are often subject to restrictions and may be suspended at the sponsor's discretion. While non-traded REITs may pay distributions to investors at a stated target rate during the capital-raising phases, the funds used to pay such distributions may be obtained from sources other than cash flow from operations, and such financing can increase operating costs.

A.1.p. Collateralized Obligations

PDIV may invest in collateralized mortgage obligations ("CMOs") that are collateralized by mortgage-backed securities issued by GNMA, FHLMC or FNMA ("mortgage assets"). CMOs are multiple-class debt obligations. Payments of principal and interest on the mortgage assets are passed through to the holders of the CMOs as they are received, although certain classes (often referred to as "tranches") of CMOs have priority over other classes with respect to the receipt of mortgage prepayments. Each tranche is issued at a specific or floating coupon rate and has a stated maturity or final distribution date. Interest is paid or accrues in all tranches on a monthly, quarterly or semi-annual basis. Payments of principal and interest on mortgage assets are commonly applied to the tranches in the order of their respective maturities or final distribution dates, so that generally no payment of principal will be made on any tranche until all other tranches with earlier stated maturity or distribution dates have been paid in full.

PDIV may also invest in collateralized debt obligations ("CDOs"), which include collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust that is backed by a diversified pool of high-risk, below-investment-grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans, and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans.

In certain instances, PDIV, through a separately managed account product or privately sponsored fund, may invest in the following types of financial instruments:

- Option contracts on indices
- Option contracts on futures
- Physical commodities
- Futures contracts and index futures contracts

A.1.o.1. Options Contracts on Indices

An index assigns relative values to the securities included in the index, and the index fluctuates with changes in the market values of the securities included in the index. Index cash options operate in the same way as the more traditional options on securities, except that index options are settled exclusively in cash and do not involve delivery of securities. Thus, upon exercise of index options, the purchaser will realize and the writer will pay an amount based on the differences between the exercise price and the closing price of the index.

A.1.o.2. Options Contracts on Futures

Options on futures contracts are similar to options on securities, except that an option on a futures contract gives the purchaser the right, in return for the premium paid, to assume a position in a futures contract rather than to purchase or sell a security at a specified exercise price at any time during the period of the option. Upon exercise of the option, the delivery of the futures position to the holder of the option will be accompanied by transfer to the holder of an accumulated balance representing the amount by which the market price of the futures contract exceeds in the case of a call, or is less than in the case of a put, the exercise price of the option on the future.

A.1.o.3. Physical Commodities

Physical commodities include soft assets such as crops and coffee that are generally extracted from the ground, as well as hard assets such as minerals and metals that are mined. Investing in commodities carries significant risks, including price, credit and market risk. Many physical commodities, as well as intangible commodities (such as security or fixed income indices) serve as the underlier to commodity futures contracts.

A.1.o.4. Futures Contracts and Index Futures Contracts

A futures contract is a bilateral agreement where one party agrees to accept and the other party agrees to make delivery of cash for an underlying debt security, as called for in the contract, at a specified date and at an agreed-upon price. An index futures contract involves the delivery of an amount of cash equal to a specified dollar amount times the difference between the index value at the close of trading of the contract and the price at which the futures contract is originally struck. No physical delivery of the securities comprising the index is made. Generally, these futures contracts are closed out prior to the expiration date of the contracts.

B. Investment Strategy and Method of Analysis Material Risks

B.1. Leverage

The use of leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment. The use of leverage entails borrowing, which results in additional interest costs to the investor.

Broker-dealers who carry customer accounts have a minimum equity requirement when clients utilize leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the price of a security declines in value to the point where the excess equity used to satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or

marketable securities. A deposit of securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to withdraw cash, the client must sell a disproportionate amount of collateral securities to release enough cash to satisfy the withdrawal amount based upon similar reasoning as cited above.

Regulations concerning the use of leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

B.2. Option Strategies

Holders of long call options give the holder the right to acquire underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. PDIV as part of its investment strategy may employ:

- covered call writing;
- long call options purchases;
- long put options purchases;
- option spreading;
- short call option strategy;
- short put option strategy;
- option spreading;
- equity collars; and
- long straddles.

B.2.a. Covered Call Writing

Covered call writing is the sale of in-, at-, or out-of-the money call option against a long security position held in the client portfolio. This type of transaction is used to generate income. It also serves to create downside protection in the event the security position declines in value. Income is received from the proceeds of the option sale. Such income may be reduced to the extent it is necessary to buy back the option position prior to its expiration. This strategy may involve a degree of trading velocity, transaction costs and significant losses if the underlying security has volatile price movement. Covered call strategies are generally suited for companies with little price volatility.

B.2.b Long Call Option Purchases

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

B.2.c. Long Put Option Purchases

Long put option purchases allow the option holder to sell or “put” the underlying security at the contract strike price at a future date. If the price of the underlying security declines in value, the value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

B.2.d Option Spreading

Option spreading usually involves the purchase of a call option and the sale of a call option at a higher contract strike price, both having the same expiration month. The purpose of this type of transaction is to allow the holder to be exposed to the general market characteristics of a security without the outlay of capital to own the security, and to offset the cost by selling the call option with a higher contract strike price. In this type of transaction, the spread holder “locks in” a maximum profit, defined as the difference in contract prices reduced by the net cost of implementing the spread. There are many variations of option spreading strategies; please contact the Options Clearing Corporation for a current Options Risk Disclosure Statement that discusses each of these strategies.

B.2.e. Short Call Option Strategy

Short call option strategy is highly speculative and has theoretical potential for unlimited loss. The seller (writer) of the call option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain below the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security increase above the contract strike price, then the option writer can either purchase the call option at a loss, or through a process of exercise and assignment be forced to sell the stock at the contract strike price. If this happens, the option writer will have to go in the open market and buy an equivalent amount of stock to cover the sale at prices that can be materially higher than the amount received from the sale.

B.2.f. Short Put Option Strategy

Short put option strategy is highly speculative and has theoretical potential for significant loss. The seller (writer) of the put option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain above the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security decrease below the contract strike price, the option writer can either purchase the put option at a loss, or through a process of exercise and assignment be forced to buy the stock at the contract strike price. If this happens,

the option writer will be purchasing the underlying security at a price potentially well above its then-current market value, exposing the investor to potential loss.

B.2.g. Option Spreading and Uncovered Call and Put Writing

Option spreading and uncovered call and put writing require minimum equity requirements. The broker-dealer or custodian will require each client who utilizes one or more of these strategies to sign a margin account agreement, even if it is intended that no margin debit balance be incurred as a result of the transaction(s).

Options entail greater risk but allow an investor to have market exposure to a particular security or group of securities without the capital commitment required to purchase the underlying security or group of securities. In addition, options allow investors to hedge security positions held in the portfolio. For detailed information on the use of options and option strategies, please contact the Options Clearing Corporation for the current Options Risk Disclosure Statement.

B.2.h. Equity Collar

A collar combines both a cap and a floor. A cap gives the purchaser of the cap the right (for a premium payment), but not the obligation, to receive the difference in the cost on some amount when a specified index rises above the specified "cap rate." A floor is the opposite of a cap—it gives the purchaser of the floor the right (for a premium payment), but not the obligation, to receive the difference in interest payable on an amount when a specified index falls below the specified "floor rate." A collar involving stock is called an "equity collar." In a collar transaction, the buyer of the collar purchases a cap while selling a floor indexed to the same rate or asset. A zero-cost collar results when the premium earned by selling a floor exactly offsets the cap premium.

B.2.i. Long Straddle

A long straddle is the purchase of a long call and a long put with the same underlying security, expiration date and strike price. This is a speculative trade that may be profitable when volatility is high and will result in a loss when prices of the underlying security are relatively stable.

C. Security-Specific Material Risks

There is an inherent risk for clients whose investment portfolios lack diversification—that is, they have their investment portfolios heavily weighted in one security, one industry or industry sector, one geographic location, one investment manager, one type of investment instrument (equities versus fixed income). Clients who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.

Item 9: Disciplinary Information

PDIV has not been the subject of a legal or disciplinary matter that is material to a client or prospective client's evaluation of PDIV's business or the integrity of PDIV's management.

PDIV is owned by Peregrine Financial Group, Inc., which the SEC defines as a "management person." As noted below, Peregrine Financial Group, Inc. has been the subject of an administrative action by the Commodity Futures Trading Commission.

A. Criminal or Civil Actions

There is nothing to report on this item.

B. Administrative Enforcement Proceedings

During the course of the March 1999 audit conducted by the Division of Trading and Markets of the Commodity Futures Trading Commission, it was discovered that Peregrine Financial Group, Inc.'s interpretation of the requirements of the Commodity Exchange Act and the Commodity Futures Trading Commission rules did not comply with the Commodity Futures Trading Commission's interpretations. The major discrepancy in question was related to the classification of "current assets" versus "non-current assets." As a proactive step, Peregrine Financial Group, Inc. implemented initiatives and changes to its accounting practices and regulatory reporting. On September 7, 2000, the Commodity Futures Trading Commission accepted an offer of settlement submitted by Peregrine Financial Group, Inc., in which, without admitting or denying the allegations, Peregrine Financial Group, Inc., agreed to pay a fine of \$90,000. In addition, Peregrine Financial Group, Inc., without admitting or denying the necessity of the adjustments, has complied in full with the Commodity Futures Trading Commission to meet its interpretations of the rules and industry accounting restrictions by reclassifying certain assets as non-current. These adjustments have not, nor will they, affect the operations or financial stability of Peregrine Financial Group, Inc., or PDIV.

C. Self-Regulatory Organization Enforcement Proceedings

There is nothing to report on this item.

Item 10: Other Financial Industry Activities and Affiliations

A. Broker-Dealer or Representative Registration

BEST Direct Securities, LLC, is an affiliate of Peregrine Financial Group, Inc., and is a fully disclosed broker-dealer which clears its securities business through Sterne Agee & Leach, Inc. BEST Direct Securities, LLC, is wholly-owned by Peregrine Financial Group, Inc. Many of PDIV's investment advisor representatives are dually licensed with BEST Direct Securities, LLC. Peregrine Financial Group, Inc. recommends that its advisory clients establish accounts at BEST Direct Securities, LLC. Clients should understand that there is a potential conflict of interest in that BEST Direct Securities, LLC, may earn transaction and SEC Rule 12b-1 fee revenue. (SEC Rule 12b-1 allows mutual fund advisors to make payments to brokers from fund assets for the costs of marketing and distributing fund shares.)

B. Futures or Commodity Registration

B.1. Peregrine Financial Group, Inc.

Peregrine Financial Group, Inc. owns 100% of the shares of PDIV. Peregrine Financial Group, Inc. is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member of the National Futures Association in that capacity.

B.2. Peregrine Asset Management, Inc.

Peregrine Asset Management, Inc., an affiliate of Peregrine Financial Group, Inc., is registered with the Commodity Futures Trading Commission as a commodity pool operator and a commodity trading advisor and is a member of the National Futures Association in such capacity. Peregrine Asset Management is wholly-owned by Peregrine Financial Group, Inc. Peregrine Asset Management currently serves as an investment manager to four commodity pools: 1) PECTA, LLC; 2) PECTA II, LLC; 3) Desert Wind, LLC; and 4) Gold Bullion International, LLC. PDIV may recommend its advisory clients to consider investing in these funds.

B.3. Russell Wasendorf, Sr.

Russell Wasendorf, Sr., owns 100% of the shares of Peregrine Financial Group, Inc. Mr. Wasendorf is listed with National Futures Association as a principal of Peregrine Financial Group, Inc., and Peregrine Asset Management, Inc., and is listed as a forex-associated person, associated person and National Futures Association associate member.

C. Principal Trading

PDIV does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory, or buying stocks from advisory clients into a firm's inventory).

C.2. Recommendations – PDIV Financial Interest

PDIV may recommend investment products or securities to advisory clients in which its related persons may have some proprietary or ownership interest. Although PDIV strives to put its clients' interest first, there is a potential conflict of interest in that there is an economic incentive for PDIV to recommend investment products or securities sponsored, or advised by its related persons or in which PDIV or its related persons have a financial interest.

D. Material Relationships Maintained by this Advisory Business and Conflicts of Interest

PDIV may recommend/require that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc. (Schwab), a FINRA registered broker-dealer, member SIPC, the Fidelity Institutional Wealth Services division of Fidelity Investment Corporation, which clears through National Financial Services, LLC, member NYSE, SIPC ("IWS"), or BEST Direct Securities, LLC, a fully disclosed introducing broker through Sterne Agee & Leach, Inc. In the case of advisory accounts held at BEST Direct Securities, LLC, BEST Direct Securities, LLC, may earn 12b-1 fee compensation. PDIV may select the broker-dealer that effects transactions. PDIV also negotiates execution prices and brokerage transaction costs with the broker-dealer. Although PDIV has procedures in place to ensure that its fiduciary obligations to clients are fulfilled, which includes, among other things, a policy designed to ensure compliance with its best execution obligations, a conflict of interest may be deemed to exist as a result of this arrangement.

PDIV and BEST Direct Securities, LLC, are both controlled by Peregrine Financial Group, Inc., which is controlled by Russell Wasendorf, Sr. PDIV recommends that its advisory clients establish accounts at BEST Direct Securities, LLC. Clients should understand that there is a potential conflict of interest in that BEST Direct Securities, LLC, may earn transaction and SEC Rule 12b-1 fee revenue. (SEC Rule 12b-1 allows mutual fund advisors to make payments to brokers from fund assets for the costs of marketing and distributing fund shares.) The transaction costs charged by BEST Direct Securities, LLC may be higher than those of non-affiliated broker-dealers. **Schwab**

PDIV and Schwab are separate, unaffiliated entities. Schwab provides PDIV with access to Schwab's institutional trading and operations services typically not available to Schwab's retail customers. These services generally are available to independent investment advisors at no charge to them so long as a total of at least \$10 million of the advisor's clients account assets are maintained at Schwab. Schwab's services include brokerage, custody, research, access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment. Schwab also makes available to PDIV other products and services that

benefit PDIV. Some of these products and services assist PDIV in managing and administering clients' accounts. These include software and other technology that provide access to client data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of PDIV's fees from its clients' accounts, and assist with back-office support, record-keeping and client reporting. Many of these services generally may be used to service all or a substantial number of PDIV's accounts, including accounts not maintained at Schwab.

Schwab provides various products, services and other benefits to PDIV at no cost or a reduced cost based on PDIV's commitment that PDIV's clients will place or maintain a specified dollar amount of assets in accounts with Schwab within a specified period of time. PDIV may be influenced by this commitment in recommending or requiring that clients establish brokerage accounts at Schwab. Specifically, Schwab is providing a reimbursement of account exit fees if a client's current custodian charges the client exit, account transfer or closure fees ("Exit Fees") as a result of transferring an account to Schwab. Schwab will reimburse Exit Fees as follows: Schwab will credit a client's account in accordance with PDIV's instructions. The total amount of Exit Fees funds available to PDIV is \$23,000. Schwab will reimburse Exit Fees borne by client accounts directly to the client accounts custodied at Schwab within 60 days of transfer. The funds made available by Schwab for reimbursement of Exit Fees may be increased in the future at Schwab's discretion.

Some of the products, services or other benefits provided by Schwab benefit PDIV and may not benefit PDIV's clients' accounts. PDIV's recommendation that a client place assets in Schwab's custody may be based in part on benefits to PDIV, and not solely on the nature, cost or quality of custody and execution services provided by Schwab.

PDIV places trades for its clients' accounts subject to its duty of best execution and other fiduciary duties. PDIV may use broker-dealers other than Schwab to execute trades for client accounts maintained at Schwab, but this practice may result in additional costs to clients so that PDIV is more likely to place trades through Schwab rather than other broker-dealers. Schwab's execution quality may be different than other broker-dealers.

IWS

PDIV and IWS are separate, unaffiliated entities. IWS provides PDIV with access to IWS's institutional trading and operations services typically not available to retail customers. These services generally are available to independent investment advisors at no charge to them. IWS' services include brokerage, custody, research, access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment. IWS also makes available to PDIV other products and services that benefit PDIV. Some of these products and services assist PDIV in managing and administering clients' accounts. These include software and other technology that provide access to client data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders

for multiple client accounts), provide research, pricing information and other market data, facilitate payment of PDIV's fees from its clients' accounts, and assist with back-office support, record-keeping and client reporting. Many of these services generally may be used to service all or a substantial number of PDIV's accounts, including accounts not maintained at IWS.

IWS may provide, at its sole discretion, various products, services and other benefits to PDIV at no cost or a reduced cost based on PDIV's placement of accounts with IWS. PDIV may be influenced by this commitment in recommending or requiring that clients establish brokerage accounts at IWS. Specifically, IWS may provide, at its sole discretion, a reimbursement of account exit fees if a client's current custodian charges the client exit, account transfer or closure fees ("Exit Fees") as a result of transferring an account to IWS.

Some of the products, services or other benefits provided by IWS benefit PDIV and may not benefit PDIV's clients' accounts. PDIV's recommendation that a client place assets in IWS' custody may be based in part on benefits to PDIV, and not solely on the nature, cost or quality of custody and execution services provided by IWS.

PDIV places trades for its clients' accounts subject to its duty of best execution and other fiduciary duties. PDIV may use broker-dealers other than IWS to execute trades for client accounts maintained at IWS, but this practice may result in additional costs to clients so that PDIV is more likely to place trades through IWS rather than other broker-dealers. IWS' execution quality may be different than other broker-dealers.

PDIV's overriding objective in effecting portfolio transactions is to seek to obtain the best combination of price and execution with a view to providing the most favorable terms reasonably available under the circumstances. The best price, giving effect to brokerage transaction costs, if any, is normally an important factor in this decision, but a number of other judgmental factors may also enter into the decision. These factors include PDIV's knowledge of the following:

- the nature of the security being traded;
- the size of the transaction;
- the desired timing of the trade;
- the activity existing and expected in the market for the particular security;
- confidentiality;
- the execution, clearance and settlement capabilities of the broker or dealer selected and others that are considered;
- the financial stability of the broker or dealer selected and such other brokers or dealers; and
- actual or apparent operational problems of any broker or dealer.

Recognizing the value of these factors, PDIV may cause an account to pay a brokerage commission in excess of that which another broker or dealer may have charged for

effecting the same transaction, provided that PDIV determines in good faith that the transaction cost is reasonable in relation to the services received. Evaluations of the reasonableness of brokerage transaction costs, based on the foregoing factors, are made on an ongoing basis by PDIV's staff while effecting transactions.

PDIV and its affiliates, and their respective principals, employees and agents, may trade personal accounts independently of client accounts. The records of such proprietary trading are confidential and will not be available for inspection by the clients. Prospective investors should be aware that such persons might from time to time take positions in their proprietary accounts that are different from or opposite to positions taken for clients.

E. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest

PDIV may direct brokerage transactions to executing brokers who offer research and brokerage services that PDIV utilizes in order to provide services to its clients. A potential conflict of interest may exist in that client securities transactions are used to pay for research and other brokerage services provided to PDIV by an executing broker. The commissions paid to executing brokers by PDIV to obtain the research and brokerage services may be higher than would otherwise apply absent the need for research and brokerage services. Such research and brokerage services may include the receipt of company, industry or general economic reports, trade execution and settlement software, performance measurement software, industry conferences and dinners, and other services related to the investment management, trade and settlement functions of its customer portfolios. PDIV has policies and procedures in place to review its trade execution practices to ensure that its directed brokerage trading practices are in the best interests of its clients and are in keeping with its best execution obligations.

Additionally, PDIV may recommend to clients certain broker-dealers and/or custodians based on the needs of the individual client, and taking into consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services, and the reputation of the broker-dealer or custodian. The client will be instructed that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities and, as a result, there may be differences with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the transaction costs and other costs charged by broker-dealers and custodians. The final determination to engage a PDIV-recommended broker-dealer or custodian shall be made by and in the sole discretion of the client. Dealers will be recommended only if they are properly registered in the client's state.

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

A. Code of Ethics Description

In accordance with the Investment Advisers Act of 1940, PDIV has adopted policies and procedures designed to detect and prevent insider trading. In addition, PDIV has adopted a Code of Ethics (the "Code") designed to comply with Rule 204A-1 under the Investment Advisers Act. Among other things, the Code includes written procedures governing the conduct of PDIV's advisory and access persons. The Code also imposes certain reporting obligations on persons subject to the Code. The Code and applicable securities transactions are monitored by the Chief Compliance Officer of PDIV or his or her designee. PDIV, upon written request from the client, will forward to the client a copy of its Code of Ethics.

PDIV has policies and procedures in place to ensure that the interests of its clients are given preference to those of PDIV, its affiliates and its associated persons. For example, there are (i) restrictions as to when PDIV and its associated persons may purchase or sell securities recommended by PDIV, (ii) policies in place to prevent the misappropriation of material non-public information, (iii) policies and procedures to manage conflicts of interest, and (iv) such other policies and procedures reasonably designed to comply with federal and state securities laws.

B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest

PDIV, its affiliates or any associated person of PDIV or its affiliates, may have material financial interests in certain securities that may also be recommended to clients. In addition, the officers, directors and employees of PDIV may participate as board members or service providers of such companies and may be compensated by such companies for their services.

In particular, Peregrine Asset Management, Inc., an affiliate of PDIV, is registered with the Commodity Futures Trading Commission as a commodity pool operator and a commodity trading advisor. Peregrine Asset Management currently serves as an investment manager to four commodity pools: 1) PECTA, LLC; 2) PECTA II, LLC; 3) Desert Wind, LLC; and 4) Gold Bullion International, LLC. PDIV may recommend its advisory clients to consider investing in any or all of these funds.

Certain employees or associated persons of PDIV are also registered representatives of Peregrine Asset Management, Inc., BEST Direct Securities, LLC, or otherwise employed by Peregrine Financial Group, Inc., thereby creating an inherent conflict of interest for those employees working for any or all of these firms. There may be instances where a dually registered employee or associated person executes commission-based trades for BEST Direct Securities, LLC, and acts as an investment advisor for PDIV's accounts. Dually

registered employees may not act as both broker and advisor for the same client account.

PDIV has policies and procedures in place to ensure that the interests of its clients are given preference to those of PDIV, its affiliates and its associated persons. For example, there are (i) restrictions as to when PDIV and its associated persons may purchase or sell securities recommended by PDIV; (ii) policies in place to prevent the misappropriation of material non-public information; (iii) policies and procedures, including a Code of Ethics, to manage conflicts of interest; and (iv) such other policies and procedures reasonably designed to comply with federal and state securities laws.

C. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest

PDIV does not engage in principal trading, meaning that PDIV, for its own account or a proprietary account of an affiliate, will not knowingly buy securities from, or sell securities to, a client's account. However, PDIV, its affiliates and associated persons (which we also refer to as "supervised persons") may buy or sell securities identical to those recommended to advisory clients for their own accounts, subject to the restrictions set forth in the Code of Ethics. There is an inherent conflict of interest between PDIV's fiduciary duty of best execution for its clients and the apparent self-interest of employees trading in the same securities contemporaneously. Also, clients, including employees of PDIV, have different investment objectives, goals and needs, and may do trades that differ from advisory clients. This includes taking the opposite side of a client's transaction. PDIV has procedures in place to monitor such transactions to ensure that its transactions do not conflict with the duties that PDIV owes to its clients.

PDIV has implemented a detailed Code of Ethics which sets forth other prohibited transactions and procedures for reporting and monitoring the trading activity of supervised persons. Prohibited transactions include front-running, the misuse of inside or material non-public information, use of information about a client's transactions or contemplated transactions, and any violation of the fiduciary duty owed to clients.

Supervised persons must obtain permission from PDIV's Chief Compliance Officer prior to conducting any personal transactions. If the supervised person is executing transactions through an external broker (not PDIV), the supervised person must inform the broker of his affiliation with PDIV, must make arrangements for copies of confirmations to be sent to PDIV's Chief Compliance Officer within 24 hours of each transaction, and must make arrangements for the Chief Compliance Officer to receive duplicate account statements. The Chief Compliance Officer will monitor the activity in the supervised person's account and will compare it to activity in customers' accounts. Trading in violation of procedures may result in the unwinding of trades, disgorgement of profits and potential disciplinary action.

D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest

PDIV, its affiliates and associated persons may buy or sell securities identical or similar to those recommended to advisory clients for their own accounts, subject to the restrictions set forth in the Code of Ethics. There is an inherent conflict of interest between PDIV's fiduciary duty of best execution for its clients and the apparent self-interest of employees trading in the same securities contemporaneously. When appropriate, identical same-day security transactions placed by an investment advisor representative will be average priced and allocated to the employee and customer accounts.

At all times, as set forth in the Code of Ethics, decisions regarding transactions for client accounts will be independent of decisions concerning accounts of PDIV's employees, associated persons or their immediate families. Under no circumstances may action be taken for client accounts in order to benefit an employee or associated person's account, or that of his or her family members. Moreover, PDIV's personnel must pre-clear certain trades for personal securities accounts with the Chief Compliance Officer or his or her designee. All personnel are required to have duplicate copies of confirmations and/or statements with respect to every brokerage account they have sent to PDIV in order to monitor compliance with its personal trading policies and restrictions. Personnel must report all personal securities transactions no less than quarterly.

PDIV will not permit agency cross-transactions where PDIV or one of its affiliates buys a security from its advisory client and contemporaneously sells such security to another buyer.

Item 12: Brokerage Practices

A. Factors Used to Select Broker-Dealers for Client Transactions

PDIV may recommend/require that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc. ("Schwab"), a FINRA-registered broker-dealer, member SIPC, the Fidelity Institutional Wealth Services division of Fidelity Investment Corporation which clears through National Financial Services, LLC, member NYSE, SIPC, or BEST Direct Securities, LLC, a fully disclosed introducing broker through Sterne Agee & Leach, Inc., to maintain custody of clients' assets and to effect trades for their accounts. BEST Direct Securities, LLC, is an affiliate of PDIV. The transaction fees and/or commissions charged by BEST Direct Securities, LLC, may be higher than those of non-affiliated broker-dealers to maintain custody of clients' assets and to effect trades for their accounts. Although PDIV may recommend/require that clients establish brokerage accounts with Schwab or IWS, PDIV is independently owned and operated and not affiliated with Schwab or IWS.

Schwab, IWS and BEST Direct Securities, LLC, do not charge separately for custody services, but are compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through or that settle into Schwab, IWS or BEST Direct Securities, LLC accounts, respectively.

In certain instances and subject to approval by PDIV, PDIV will recommend to clients certain broker-dealers and/or custodians based on the needs of the individual client, and taking into consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services, and the reputation of the broker-dealer or custodian. The final determination to engage a broker-dealer or custodian recommended by PDIV shall be made by and in the sole discretion of the client. The client recognizes that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities. As a result there may be disparities with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the commissions and other costs charged by broker-dealers and/or custodians.

A.1. Institutional Trading and Custody Services

Schwab provides PDIV with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services are generally available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets are maintained in accounts at Schwab Advisor Services. These services are not contingent upon PDIV committing to Schwab any specific amount of business (assets in custody or trading commissions). Schwab's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

IWS provides PDIV with access to its institutional trading and custody services, which are typically not available to Fidelity retail investors. These services are made available to independent investment advisors at IWS' sole discretion. IWS' brokerage services include execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

A.2. Other Products and Services **Schwab**

Schwab also makes available to PDIV other products and services that benefit PDIV but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or some substantial number of PDIV's accounts, including accounts not maintained at Schwab. Schwab Advisor Services also makes available to PDIV its managing and administering software and other technology that

- provide access to client account data (such as trade confirmations and account statements);
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- provide research, pricing and other market data
- facilitate payment of PDIV's fees from its clients' accounts; and
- assist with back-office functions, recordkeeping and client reporting.

Schwab Advisor Services also offers other services intended to help PDIV manage and further develop its business enterprise. These services may include

- compliance, legal and business consulting;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants and insurance providers.

Schwab Advisor Services may make available, arrange and/or pay third-party vendors for the types of services rendered to PDIV. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to PDIV. Schwab may also provide other benefits such as educational events or occasional business entertainment of PDIV personnel. In evaluating whether to recommend or require that clients custody their assets at Schwab, PDIV may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

IWS

IWS also makes available to PDIV other products and services that benefit PDIV but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or some substantial number of PDIV's accounts, including accounts not maintained at IWS. IWS also makes available to PDIV its managing and administering software and other technology that

- provide access to client account data (such as trade confirmations and account statements);
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- provide research, pricing and other market data
- facilitate payment of PDIV's fees from its clients' accounts; and
- assist with back-office functions, recordkeeping and client reporting.

IWS also offers other services intended to help PDIV manage and further develop its business enterprise. These services may include

- compliance, legal and business consulting;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants and insurance providers.

IWS may make available, arrange and/or pay third-party vendors for the types of services rendered to PDIV. IWS may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to PDIV. IWS may also provide other benefits such as educational events or occasional business entertainment of PDIV personnel. In evaluating whether to recommend or require that clients custody their assets at IWS, PDIV may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers and not solely on the nature, cost or quality of custody and brokerage services provided by IWS, which may create a potential conflict of interest.

A.3. Independent Third Parties

Schwab may make available, arrange and/or pay third-party vendors for the types of services rendered to PDIV. Schwab Advisor Services may discount or waive fees it would otherwise charge for some of these services or all or a part of the fees of a third party providing these services to PDIV.

IWS may make available, arrange and/or pay third-party vendors for the types of services rendered to PDIV. IWS may discount or waive fees it would otherwise charge for some of these services or all or a part of the fees of a third-party providing these services to PDIV.

B. Aggregating Securities Transactions for Client Accounts

B.1. Best Execution

PDIV may recommend/require that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc. ("Schwab"), a FINRA-registered broker-dealer, member SIPC, the Fidelity Institutional Wealth Services division of Fidelity Investment Corporation, which clears through National Financial Services, LLC, member NYSE, SIPC ("IWS"), or BEST Direct Securities, LLC, a fully disclosed introducing broker through Sterne Agee & Leach, Inc., to maintain custody of clients and assets and to effect trades for their accounts. Such accounts will be prime broker eligible, so that if and when the need arises to effect securities transactions at broker-dealers ("executing brokers") other than with the client's current custodian, such custodian will accept delivery or deliver the applicable security from/to the executing broker. Schwab charges a "trade away" fee, which is charged against the client account for each trade away occurrence. Other custodians have their own policies concerning prime broker accounts and trade away fees. Clients will consult their current custodian for their policies and fees.

PDIV, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold, the price of such securities, the executing broker, and the commission rates to be paid to effect such transactions. PDIV recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. PDIV will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to

- the financial strength, reputation and stability of the broker;
- the efficiency with which the transaction is effected;
- the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any);
- the availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future;
- the efficiency of error resolution, clearance and settlement;
- block trading and positioning capabilities;
- the ability to borrow securities for short sale;
- performance measurement;
- online access to computerized data regarding customer accounts ;
- availability, comprehensiveness, and frequency of brokerage and research services;
- commission rates;
- the economic benefit to the client; and

- related matters involved in the receipt of brokerage services.

B.2. Directed Brokerage

B.2.a. PDIV Recommendations

PDIV typically recommends Schwab Advisor Services, Fidelity Institutional Wealth Services, which clears through National Financial Services, LLC, member NYSE, SIPC, or Sterne Agee & Leach, Inc., which clears introducing broker BEST Direct Securities, LLC, as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

B.2.b Client-Directed Brokerage

Occasionally a client may direct PDIV to use a particular broker-dealer to execute portfolio transactions for its account or request that certain types of securities not be purchased for its account. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage PDIV derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. PDIV loses the ability to aggregate trades with other PDIV advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

B.3. Security Allocation

Since PDIV may be managing accounts with similar investment objectives, PDIV may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by PDIV in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts. Such aggregate orders may include transactions for accounts for employee benefit plans and private investment vehicles, such as limited partnerships or limited liability companies, in which PDIV, its affiliates, principals or employees are among the investors.

PDIV's allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account the clients' best interests. PDIV will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

PDIV's advice to certain clients and entities and the action of PDIV for those and other clients are frequently premised not only on the merits of a particular investment, but also on the suitability of that investment for the particular client in light of his or her applicable investment objective, guidelines and circumstances. Thus, any action of PDIV with respect to a particular investment may, for a particular client, differ or be opposed to the recommendation, advice, or actions of PDIV to or on behalf of other clients.

B.4. Order Aggregation

Orders for the same security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order will receive the average price and, subject to minimum ticket charges and possible step outs, pay a pro rata portion of commissions.

To minimize performance dispersion, "strategy" trades should be aggregated and average priced. However, when a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This is true even if PDIV believes that a larger size block trade would lead to best overall price for the security being transacted.

B.5. Allocation of Trades

All allocations will be made prior to the close of business on the trade date. In the event an order is "partially filled", the allocation will be made in the best interests of all the clients in the order, taking into account all relevant factors including, but not limited to, the size of each client's allocation, clients' liquidity needs and previous allocations. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

PDIV acts in accordance with its duty to seek best price and execution and will not continue any arrangements if PDIV determines that such arrangements are no longer in the best interest of its clients.

B.6. Soft Dollar Arrangements

PDIV does not utilize soft dollar arrangements. PDIV does not direct brokerage transactions to executing brokers for research and brokerage services.

B.7. Brokerage for Client Referrals

PDIV does not engage in the practice of directing brokerage in exchange for the referral of advisory clients.

Item 13: Review of Accounts

A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved

PDIV's Chief Compliance Officer or designee, who has extensive compliance experience, is assigned to each account and/or financial plan and is responsible for monitoring and maintaining compliance with client-specific guidelines. Formal reviews are performed at least annually and include client portfolio structure, strategies, and adherence to client investment policy and guidelines and benchmarks. In addition, account and performance reviews are offered to clients on a quarterly basis. More frequent reports may be provided upon request.

B. Review of Client Accounts on Non-Periodic Basis

PDIV's Chief Compliance Officer is responsible for ensuring that any significant change in a client's investment objectives, risk tolerance or the concentration of a client's assets is appropriate for and has been reviewed with the client.

C. Content of Client-Provided Reports and Frequency

PDIV performs reviews for managed accounts on at least an annual basis, with accounts generally being reviewed at least quarterly. Reviews for managed accounts consist of an analysis of the following factors:

- client investment objectives;
- allocation versus target allocation;
- industry issues;
- credit issues;
- information concerning individual holdings in portfolios; and
- review of performance versus benchmark and performance attribution.

The client's independent custodian also provides regular account statements directly to the client. The custodian's statement is the official record of the client's securities account and supersedes any statements or reports created on behalf of the client by PDIV.

Item 14: Client Referrals and Other Compensation

A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest

PDIV may enter into solicitation agreements with unaffiliated individuals and organizations that solicit clients for PDIV. All such agreements are made in writing and comply with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940.

While the specific terms of each solicitation agreement may differ, a solicitor's compensation is generally based upon PDIV's engagement of new clients and the retention of those clients and is calculated using a varying percentage interest in the fees paid to PDIV by such clients. In all solicitation agreements, each solicitor must represent that they have not been:

- subject to an order of the Securities and Exchange Commission issued under Section 203(f) of the Act;
- convicted within the last ten years of any felony or misdemeanor involving conduct described in Section 203 (e)(2)(A) – (D) of the Act;
- found by the SEC to have engaged, or convicted of engaging, in any of the conduct specified in paragraphs (1), (5) or (6) of Section 203(e) of the Act; nor
- subject to an order, judgment or decree described in Section 203(e)(4) of the Act.

Each solicitor must agree to advise PDIV immediately of any change in such representations. In addition, the solicitor is to provide the prospective client with a copy of PDIV's "Disclosure Brochure," which is either a copy of ADV Part 2 or the equivalent information in some other format that does not obscure the presentation of the required disclosures, in addition to a document disclosing that the solicitor is receiving some form of payment for making the referral. The solicitor is required to obtain the client's signature acknowledging receipt of the Disclosure Brochure and the written document. Note that, in some states, a solicitor is also required to be qualified and registered as an investment advisor representative.

B. Advisory Firm Payments for Client Referrals

B.1. Service Fees

PDIV may pay service fees to broker/dealers and other third-party vendors who introduce PDIV to clients and assist PDIV in maintaining the client's account by keeping records and performing other services that PDIV would otherwise have to perform itself.

Broker-dealers and other financial intermediaries may charge PDIV substantial fees for providing support to clients. These charges may include (i) transaction fees; (ii) distribution and service fees from 12b-1 distribution plans; and (iii) recordkeeping fees for providing recordkeeping services to investors who invest through dealer-controlled omnibus accounts.

All fees paid to PDIV for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds, exchange traded funds, investment managers, broker-dealers and custodians retained by clients. Such fees and expenses are described in each mutual fund and variable annuity prospectus, each investment manager's Form ADV or similar disclosure statement, and by any broker-dealer or custodian retained by the client. Mutual fund, variable annuity and investment manager fees will generally include a management fee, fund expenses and related fees. If a mutual fund also imposes sales charges, the client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. The mutual funds and investment managers offered through the Schwab's Managed Account Select®, Managed Account Access®, and Managed Account Marketplace® programs or Fidelity's Managed Account Resources and Separate Account Network programs may not include all eligible mutual fund or investment manager alternatives that might otherwise be available to the client. The platform manager and/or the broker-dealer or custodian may have certain operational constraints or due diligence criteria that may prevent a particular mutual fund or investment manager from being offered through the program. As a result, a client using PDIV may be precluded from using certain mutual funds or investment managers because they are not offered by the platform manager or are not available through the broker-dealer or custodian.

Item 15: Custody

Except to the extent that PDIV directs the withdrawal of advisory fees from client accounts, PDIV will not otherwise have custody of any funds in client accounts. PDIV will utilize the services of several unaffiliated qualified custodians to maintain custody of clients' accounts, and such custodians will issue statements to the clients. Clients will receive at least quarterly account statements directly from their custodian containing a description of all activity, cash balances and portfolio holdings in the client's account. Clients are urged to compare the account balance(s) shown on their PDIV Quarterly Portfolio Review to the quarter-end balance(s) on their custodian's monthly statement. The custodian's statement is the official record of the account. PDIV will not issue separate statements to clients.

Item 16: Investment Discretion

For clients who choose to provide PDIV, through an investment advisor representative, discretion over their investment advisory accounts, PDIV will

- make all investment decisions, including choosing, retaining and replacing managers and selecting proprietary or third-party investment strategies, individual securities including options, equities, advance deposit receipts, fixed income (taxable and non-taxable), exchange traded funds and mutual funds;
- make investment decisions on behalf of the client within Schwab's Managed Account Select®, Managed Account Access®, and Managed Account Marketplace® programs or Fidelity's Managed Account Resources and Separate Account Network programs (pursuant to the terms and conditions of such programs);
- make investment decisions regarding portfolio asset allocation and rebalancing; and
- otherwise have full discretionary authority over the client's investment portfolio pursuant to a written investment advisory agreement between the client and PDIV.

PDIV's discretion shall be limited by any discretionary investment authority restrictions imposed by the selected program agreement or the client.

Item 17: Voting Client Securities

PDIV does not vote client securities. The custodian, transfer agent or broker for client accounts is responsible for providing proxies to the client. PDIV will endeavor to make recommendations to Clients on voting proxies, shareholder vote, consent, election or similar action if solicited by, or with respect to, issuers of securities beneficially held as part of the Program Assets, but in no event will PDIV take discretion with respect to voting proxies.

Item 18: Financial Information

A. Balance Sheet

PDIV is not required to provide a balance sheet, as the firm does not have custody of client funds or securities or require prepayment of more than \$1,200 in fees per client, six or more months in advance.

B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients

PDIV has no financial condition that might impair its ability to meet the contractual commitments of its clients.

C. Bankruptcy Petitions during the Past Ten Years

There is nothing to report on this item.

