

Item 1: Cover Page

**Appendix 1 of Part 2A
Peregrine Discretionary and Non-Discretionary
Investment
Wrap Fee Program Brochure**

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Peregrine Diversified Investment Services Corp.

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This wrap fee program 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 rtandarc@pdivadvisors.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

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 9.A.1. – update to Civil Actions

On February 1, 2012, PDIV's parent company Peregrine Financial Group, Inc. ("PFG") was sued by the court-appointed receiver for the estates of Trevor Cook, Patrick Kiley, Jason Beckman, UBS Diversified Growth, LLC, Market Shot, LLC, Oxford Global Advisors, LLC, Oxford Global Partners, LLC, Oxford Global FX, LLC, and Oxford Growth FX, LP. The suit (Docket No. 12-cv-00269-RHK-JSM) alleges that fraudulent transfers were made through PFG by the estates. The suit seeks restitution and is pending in the United States District Court of Minnesota.

Item 9.A.3. – update to Self-Regulatory Organization Enforcement Proceedings

On February 8, 2012, the Business Conduct Committee of the National Futures Association ("NFA") simultaneously issued a complaint and a decision to Peregrine Financial Group, Inc. ("PFG"), the parent of PDIV. NFA alleged that PFG violated NFA Compliance Rule 2-9(a) in failing to diligently supervise four of its guaranteed introducing brokers and alleged that PFG violated NFA Compliance Rule 2-9(a) in failing to diligently supervise activities related to the firm's Forex customers' accounts by failing to ensure the implementation of effective anti-money laundering procedures related to some of those accounts. Without admitting or denying the allegations, PFG agreed to: 1) pay a fine of \$700,000; 2) retain an independent consultant to review existing procedures for supervising guaranteed introducing brokers and make recommendations which PFG will implement for supervision of trading in broker assisted retail customer accounts; 3) not to enter into new guarantee agreements with introducing brokers for two years without first petitioning NFA; and 4) to designate a full-time anti-money laundering officer.

Item 9.B.2.b. – Futures or Commodity Registration (affiliates)

B.2.b.1. – added affiliate Peregrine Financial Group Canada, Inc.,

Peregrine Financial Group Canada, Inc. is a wholly owned subsidiary of Peregrine Financial Group, Inc. and is registered with the Investment Industry Regulatory Organization of Canada ("IIROC") as an Investment Dealer Member for futures and futures options.

B.2.b.2. – added affiliate ChiFX, LLC

ChiFX, LLC is a wholly owned subsidiary of Peregrine Financial Group, Inc. ("PFG") and carries a Chicago Mercantile Exchange Electronic Membership for the purposes of conducting proprietary trading in Chicago Mercantile Exchange-listed products.

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Item 4: Services, Fees and Compensation

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.

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

- Advice with respect to the appropriate allocation of assets for a client.
- Advice with respect to the creation of diversified portfolios consisting of recommended mutual funds, exchange traded funds, individual equity or debt securities (exchange listed or over-the-counter), warrants, municipal debt securities, foreign issuers (equity and debt), commercial paper, certificates of deposit, investment company securities (variable life annuities, mutual funds) and government securities.
- 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.
- Recommendation to participate in "wrap fee programs" sponsored by PDIV, such as this PDIV Non-Discretionary Investment Program.
- Statistical risk-based analysis on individual mutual fund securities within the client's portfolio.

PDIV is a corporation formed under the laws of the State of Illinois and is registered with the Securities and Exchange Commission as an investment advisor. PDIV is a notice filer with Illinois and such other state regulatory authorities as required. This wrap addendum narrative provides clients with information regarding PDIV and the qualifications, business practices and nature of advisory services that should be considered before becoming an advisory client. The information in this wrap addendum has not been approved or verified by the Securities and Exchange Commission or by any state regulatory authority.

Professionals associated with PDIV are appropriately licensed, qualified and authorized to provide advisory services on the firm's behalf. Such individuals are known as investment adviser representatives ("IARs").

Please contact Rita Tandaric, Chief Compliance Officer, at (312) 775-3557 if you have any questions about this wrap fee addendum to PDIV's Brochure. Additional information about PDIV is available at www.adviserinfo.sec.gov.

A. PDIV Investment Wrap Fee Program

PDIV, through a client-designated investment adviser representative, offers a professional and flexible investment wrap fee program. The PDIV Investment Wrap Fee Program offers discretionary and non-discretionary asset management services based upon a client's individual financial circumstances, risk tolerance, investment goals and objectives, and any restrictions imposed by such client.

Generally, PDIV does not receive any fees or payments from the custodian or other third-party service providers for recommending client investment in the PDIV Investment Wrap Program. 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"). PDIV is independently owned and operated and not affiliated with Schwab or IWS.

PDIV is also affiliated with BEST Direct Securities, LLC, a FINRA-registered broker-dealer, member SIPC, and a fully disclosed introducing broker clearing through Sterne Agee & Leach, Inc. PDIV neither custodies assets nor executes advisory client trades through Sterne Agee & Leach, Inc. or BEST Direct Securities, LLC.

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.

In the case of advisory accounts held at Schwab or IWS, neither PDIV nor any of its affiliates earns 12b-1 fee compensation from any mutual funds that clients own in their PDIV advisory accounts. Schwab, IWS and Sterne Agee & Leach, Inc. will receive fees from acting as custodian. Additionally, Schwab and IWS may receive ancillary sources of income from client accounts, for example, interest on clients' credit balances, 12b-1 fees, custodial and other administrative expenses.

Given differences in the ways in which particular clients' individual circumstances are identified and how those circumstances are interpreted by different PDIV financial advisors, clients sharing similar circumstances and risk profiles may receive different investment strategy recommendations.

The PDIV Investment Wrap Fee Program is offered as a wrap fee program whereby PDIV functions as the wrap fee program sponsor. PDIV, through its investment adviser representative, will invest and reinvest the securities, cash and/or other investments held in the Account in accordance with the client's risk tolerance, investment goals and objectives, restrictions imposed by the client, and such other information ("profile") provided by the client to PDIV. Consistent with the information in the profile,

investments may be made in, but are not limited to, securities of any kind, including common and preferred stocks, warrants, options, rights, corporate or government bonds or notes issued by U.S. or foreign issuers, and shares of money market mutual funds. (The term "securities" shall refer to securities or to all permitted investments in an account, as applicable.)

The PDIV Investment Wrap Fee Program is intended to comply with Rule 204-3 of the Investment Adviser Act of 1940, as amended (the "Adviser Act"), and Rule 3a-4 under the Investment Company Act of 1940, as amended (the "Company Act"). Each client's account is managed on the basis of the client's individual financial situation. Each client has the authority and opportunity to select an account's investment objective and impose reasonable restrictions on the management of the assets in the account. In addition, clients will be contacted at least annually (more often by agreement with the client), in order to confirm the accuracy of information and to provide ample opportunity to impose reasonable restrictions with respect to the assets in the managed account.

A.1. Investment Policy Statement

PDIV may prepare an Investment Policy Statement ("IPS") based on the client's investment objectives, goals and tolerance for risk and such other factors unique to the client, and provide an appropriate model. On a quarterly basis, PDIV, in connection with a third-party service provider, will provide such clients with reports regarding the performance of their portfolios. In addition, PDIV will monitor such portfolios and make additional recommendations and implementation decisions from time to time to rebalance and/or reallocate each client's investments in accordance with such client's IPS as applicable.

A.2. Rebalancing

PDIV will periodically re-balance the client's investment portfolio to conform to the asset allocation/asset class guidelines established by the client, if any. PDIV, in consultation with the client, will periodically review each client's portfolio to determine whether risk and return objectives and investment policies need revision as a result of changes in the client's financial circumstances. If revision is necessary, then PDIV will amend the IPS with the updated information and implement a new model portfolio.

A.3. Investment Restrictions and Changes in Clients' Financial Circumstances

In addition to providing PDIV with information regarding their personal financial circumstances, investment objectives and tolerance for risk, clients are required to provide PDIV with any reasonable investment restrictions that should be imposed on the management of their portfolio and to promptly notify PDIV of any changes in such restrictions or in the client's personal financial circumstances, investment objectives, goals and tolerance for risk. On a quarterly basis, PDIV's reports to clients will remind clients of their obligation to inform PDIV of any such changes or any restrictions that should be imposed on the management of the client's account. PDIV will also contact

clients at least annually to determine whether there have been any changes in the client's personal financial circumstances, investment objectives and tolerance for risk.

A.4. Client-Tailored Services and Client-Imposed Restrictions

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.

A.5. Fee Schedule

The fee for the PDIV Investment Wrap Program is negotiable, with a maximum three percent (3%) annual fee based on the average daily account value of assets identified to PDIV by the client with respect to whom PDIV provides investment advisory services. Such fees are billed monthly or quarterly in advance and are prorated if the advisory relationship commences otherwise than at the beginning of a calendar month or quarter. The annual fee covers the initial and ongoing provision of investment advisory services, portfolio management, research, monitoring, performance reporting, trading and recordkeeping. These fees include charges for all transaction costs such as commissions on purchase and sales of stocks, bonds, exchange-traded funds and options, trade-away fees on bonds and mutual fund transactions fees. Except as otherwise provided below, client will incur no charges other than the adviser's fee pursuant to the above fee schedule in connection with the maintenance of and activity in client's account. The PDIV wrap fee does not include mutual fund administrative and marketing fees and expenses. To the extent that securities transactions are executed away from Schwab or Fidelity then there may be commission mark-up and mark-downs that the client will pay in addition to the PDIV wrap fee.

While negotiable, the fees charged for participation in the PDIV Investment Wrap Fee Program may be higher or lower than if the client were to purchase the individual services without participation in the PDIV Investment Wrap Fee Program.

The client pays one fee* to PDIV, and PDIV will pay the providers of investment research and performance monitoring, including trading and performance reporting, by granting standing instructions to PDIV to deduct and disburse such fees from the client's account. The client authorizes the qualified custodian to debit the fee from the client's account as instructed by PDIV at the beginning of each billing period based upon the average daily account value of the previous period. If insufficient cash is available to pay such fees, securities in an amount equal to the balance of unpaid fees will be liquidated to pay for the unpaid balance.

Account assets held with Schwab, as custodian, at IWS, with National Financial Services, LLC, member NYSE, SIPC, as custodian, will be assessed the account fee based on the

* 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.

average daily account value of the previous billing period and will become due the following business day.

For accounts billed in advance and held in custody with Schwab or IWS, 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 month or quarter and will become due the following business day.

A portion of the advisory fee will be paid to providers for investment research, performance monitoring, performance reporting, trading, custody and other services provided to PDIV under the program. Services provided to the client under the program may be more or less costly were the client to obtain the services individually. Factors influencing the cost include the amount and frequency of trading in the client account, the level of investment advisory fees, the nature and substance of the investment research, performance monitoring and performance reporting.

A.6. Additional Terms for All PDIV Client Accounts

Asset-based fees are always subject to the investment advisory agreement between the client and PDIV. Such fees are payable quarterly or monthly in advance. A client investment advisory agreement may be canceled at any time by the client or by PDIV with ten (10) calendar day's prior written notice to the client.

B. Disclosure of Cost Difference if Services Are Purchased Separately

Depending on a number of factors such as the number, size and nature of the securities transactions in an advisory account, the overall fees and charges borne by the client over time could be more or less than what these fees and charges would be if the same services were provided on a separate basis. Bundled fees generally provide an economic incentive for the advisory firm to select investments and strategies that minimize trading costs. Frequent trading in an account, where transaction fees are included as part of the overall advisory fee to the client, drive trading costs higher and reduce the overall fee revenue to the advisor. As a result, higher trading costs in a bundled fee account have a negative impact on the advisory firm's profitability.

C. Additional Fees

Mutual funds and exchange traded funds have certain embedded expenses such as management fees, administrative fees and trading costs which the client bears solely from owning an investment in the mutual fund and/or exchange traded fund. These fees are in addition to any fees charged by PDIV. To the extent that securities transactions are executed away from Schwab or Fidelity then there may be commission mark-ups and mark-downs that the client will pay in addition to the PDIV wrap fee.

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.

D. Compensation for Recommending the PDIV Investment Wrap Fee Program

PDIV Investment Wrap Fee Program is a proprietary product offered exclusively through PDIV. PDIV financial advisors are compensated based upon a payout structure relating to advisory fee revenue generated from their advisory clients. PDIV financial advisors may be dually licensed with BEST Direct Securities, LLC,, a FINRA and SIPC member, and may provide services to non-wrap program clients on a commission basis. PDIV has procedures in place to ensure clients are most appropriately placed in either in a wrap program or commission-based account, given the type of securities contemplated for investment and the frequency of trading expected in a particular account.

E. Client Assets under Management

PDIV manages client assets. As of March 27, 2012, PDIV manages \$190,444,248 in discretionary client assets and \$29,072,529 in non-discretionary client assets.

Item 5: Account Requirements and Types of Clients

PDIV generally provides investment advice to the following types of clients:

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

Although PDIV provides investment services to the various types of clients mentioned, the services are conditioned upon meeting certain minimum criteria established by PDIV for each of the investment programs it offers.

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.

PDIV, for its Investment Wrap Fee Program, requires clients to establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc. ("Schwab"), a FINRA-registered broker-dealer, member SIPC, , or with the Fidelity Institutional Wealth Services division of Fidelity Investment Corporation ("IWS"), which clears through National Financial Services, LLC, member NYSE, SIPC ("NFS"). PDIV is independently owned and operated and not affiliated with Schwab or IWS. Schwab and IWS (through NFS) are qualified custodians to maintain custody of clients' assets and to effect trades for Clients' accounts.

Item 6: Portfolio Manager Selection and Evaluation

A. Portfolio Manager Selection and Review

PDIV is the sole sponsor for the PDIV Investment Wrap Fee Program. Each PDIV financial advisor participating in the program formulates his or her advice subject to approval by PDIV's investment committee of the investment methodology utilized by each participating financial advisor.

B. Participation in Wrap Fee Programs

Other than offering this program, PDIV does not participate in wrap fee programs.

C. PDIV Acts as Both a Wrap Fee Sponsor and Portfolio Manager

PDIV Investment Wrap Fee Program is a proprietary product offered exclusively through PDIV. Other than offering this program, PDIV does not participate in wrap fee programs. As stated in Item 6.A above, each individual financial advisor participating in the program formulates his or her own investment advice subject to approval by PDIV's investment committee of the investment methodology utilized by each participating financial advisor.

C.1. PDIV Investment Wrap Fee Program

PDIV offers its discretionary portfolio management services under the PDIV Investment Wrap Fee Program. Through this program, clients are able to benefit from our investment methodology.

PDIV's discretionary and non-discretionary asset management services are predicated on the client's investment objectives, goals, tolerance for risk, and other personal and financial circumstances. PDIV will analyze each client's current investments, investment objectives, goals, age, time horizon, financial circumstances, investment experience, investment restrictions and limitations, and risk tolerance and implement a model portfolio consistent with such investment objectives, goals, risk tolerance and related financial circumstances. PDIV may utilize third-party software to assist in formulating its recommendations to clients.

The PDIV Investment Wrap Fee Program is intended to comply with Rule 3a-4 under the Investment Company Act of 1940. Clients' accounts are managed on the basis of their individual financial situations. Each client has the opportunity to select the account's investment objective and to impose reasonable restrictions on the management of the assets in the account. In addition, clients will be contacted annually to determine if there are any changes to their investment goals, objectives and risk tolerance; clients will also be notified quarterly to remind them to contact PDIV in the event of any changes to their investment goals, objectives and risk tolerance.

PDIV's 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 typically recommends to clients the same mutual funds within particular asset classes. Clients will receive at least quarterly account statements directly from their custodian containing a description of all activity in their accounts.

The following are the major factors PDIV considers when recommending and implementing investment recommendations:

- Sources of wealth and/or deposits
- Risk assessment
- Investment time horizon
- Income and liquidity needs
- Asset allocation
- Restrictions on management of account

Sources of information used to develop investment recommendations may include, but are not limited to, the following:

- Client questionnaire(s) and interview(s)
- Review of client's current portfolio
- Analysis of historical risk/return characteristics of various asset classes
- Analysis of the long-term outlook for global financial markets
- Analysis of the long-term global economic and political environments

C.1.a. Investment Policy Statement

PDIV may prepare an Investment Policy Statement ("IPS") based on the client's investment objectives, goals and tolerance for risk, and such other factors unique to the client and provide an appropriate model. On a quarterly basis, PDIV, in connection with a third-party service provider, will provide such clients with reports regarding the performance of their portfolios. In addition, PDIV will monitor such portfolios and make additional recommendations and implementation decisions from time to time to rebalance and/or reallocate each client's investments in accordance with such client's investment policy statement, as applicable.

C.1.b. Rebalancing

PDIV will periodically re-balance the client's investment portfolio to conform to the asset allocation/asset class guidelines established by the client. PDIV, in consultation with the client, will periodically review each client's portfolio to determine whether risk and return objectives and investment policies need revision as a result of changes in the client's financial circumstances. If revision is necessary, then PDIV will amend the IPS with the updated information and implement a new model portfolio.

C.1.c. Investment Restrictions and Changes in Clients' Financial Circumstances

In addition to providing PDIV with information regarding their personal financial circumstances, investment objectives and tolerance for risk, clients are required to provide PDIV with any reasonable investment restrictions that should be imposed on the management of their portfolios and to promptly notify PDIV of any changes in such restrictions or in the client's personal financial circumstances, investment objectives, goals and tolerance for risk. On a quarterly basis, PDIV's reports to clients will remind clients of their obligation to inform PDIV of any such changes or any restrictions that should be imposed on the management of the client's account. PDIV will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives and tolerance for risk.

C.2. Client-Tailored Services and Client-Imposed Restrictions

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 Item 6.C.1.c. above.

C.3. Management of Wrap Fee Program

PDIV Investment Wrap Fee Program is the only asset management program offered by PDIV.

C.4. Performance-Based Fees and Side-by-Side Management

PDIV does not charge performance-based fees and therefore has no economic incentive to manage clients' portfolios in any way other than what is in clients' best interests.

C.5. Methods of Analysis, Investment Strategies and Risk of Loss

PDIV, through its investment adviser representatives, is 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.

C.5.a. Methods of Analysis for the Retention of Mutual Funds, Exchange Traded Funds, Independent Investment Managers, 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 will be taken 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 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 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 identified 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 levels 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 funds or managers utilized. PDIV will endeavor to obtain equal treatment for its clients with 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, 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.

C.6. Material Risks of Investment Instruments

PDIV typically invests in the following, which are 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

C.6.a. Equity Securities

Investing in individual companies involves 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.

C.6.b. Warrants and Rights

PDIV may invest in warrants and rights. Warrants are securities, typically issued with preferred stocks 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.

C.6.c. Mutual Funds

Investing in mutual funds involves 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.

C.6.d. Exchange Traded Funds ("ETFs")

PDIV may invest in ETFs (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.

C.6.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.

C.6.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.

C.6.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.

C.6.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 its 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.

C.6.i. Options on Securities

An option is a financial derivative that represents a contract sold by one party (option writer) to another party (option holder). The contract offers the buyer the right, but not the obligation, to buy (call) or sell (put) a security or other financial asset at an agreed-upon price (the strike price) during a certain period of time or on a specific date (exercise date). A buyer pays the writer of the options contract a premium for having these rights. Each options contract is worth 100 shares of the underlying security.

Call options give the option holder the opportunity to buy or "call" the underlying security at the contract strike price at a future date, so the buyer would want the stock to go up, while the writer, or seller, of the options contract would want the price to remain the same or go down.

Put options allow the option holder to sell or "put" the underlying security at the contract strike price at a future date, so the buyer would want the stock to go down, while the writer, or seller, of the options contract would want the price to remain the same or go up.

Options are wasting assets, because they decline in value as a function of time (known as "time decay"). An option's value has two components: a time value and an intrinsic value. As the option's expiration date nears, the time value of the option gradually declines to zero. At expiration, an option is worth only its intrinsic value. With call options, the intrinsic value is the difference between the underlying stock's price and the strike price. For put options, it is the difference between the strike price and the underlying stock's price. In the case of both puts and calls, if the respective difference value is negative, the intrinsic value is zero.

For detailed information on the use of options and options strategies, and prior to buying or selling an option, investors must read a copy of the "Characteristics and Risks of Standardized Options", also known as the options disclosure document (ODD). Copies of this document may also be obtained online (www.theocc.com), from your broker, from any exchange on which options are traded, or by contacting the Options Clearing Corporation directly at 1 N. Wacker Dr., Suite 500, Chicago, IL 60606. (1-888-678-4667).

C.6.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.

C.6.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.

C.6.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.

C.6.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).

C.6.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.

C.6.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.

C.6.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 which 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

C.6.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.

C.6.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.

C.6.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.

C.6.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.

C.7. Material Risks of Certain Investment Strategies

C.7.a. 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 require 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.

C.7.b. Option Strategies

Each options contract is worth 100 shares of the underlying security, making significant gains and losses possible. Therefore, before buying or selling options, a strategy is needed to understand how options work in a portfolio. Options strategies can favor

movements in the underlying securities that are bullish, bearish or neutral. In the case of neutral strategies, they can be further classified into those that are bullish on volatility and those that are bearish on volatility. Options are wasting assets because they decline in value as a function of time (known as "time decay"). Options strategies, especially those involving multiple different positions, can have significant trading / transaction costs which impact their profit potential. For detailed information on the use of options and options strategies, and prior to buying or selling an option, investors must read a copy of the "Characteristics and Risks of Standardized Options", also known as the options disclosure document (ODD). Copies of this document may also be obtained online (www.theocc.com), from your broker, from any exchange on which options are traded, or by contacting the Options Clearing Corporation directly at 1 N. Wacker Dr., Suite 500, Chicago, IL 60606. (1-888-678-4667).

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;
- long straddles;
- long strangle;
- short straddle; and
- short strangle.

C.7.b.1. 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.

Maximum profit is limited. Maximum loss is substantial up to the value of the underlying securities owned. Time decay has a positive effect.

C.7.b.2. 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.

Maximum profit is unlimited. Maximum loss is limited to the premium paid. Time decay has a negative effect.

C.7.b.3. 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, then 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.

Maximum profit is the difference between the strike price of the underlying security less the premium paid for the put option. Maximum loss is limited to the premium paid. Time decay has a negative effect.

C.7.b.4. 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.

C.7.b.5. 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.

Maximum profit is limited to the premium received. Maximum loss is unlimited. Time decay has a positive effect.

C.7.b.6. 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.

Maximum profit is limited to the premium received. Maximum loss is substantial up to the value of the underlying securities to be delivered to you. Time decay has a positive effect.

C.7.b.7. 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 groups 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.

C.7.b.8. 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.

C.7.b.9. 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.

Maximum profit is unlimited. Maximum loss is limited to premiums paid for purchasing both types of options. Time decay has a negative effect. High volatility has a positive effect. Low volatility has a negative effect.

C.7.b.10. Long Strangle

The long strangle, also known as buy strangle or simply "strangle", is a neutral strategy in options trading that involve the simultaneous buying of a slightly out-of-the-money put and a slightly out-of-the-money call of the same underlying stock and expiration date. The long options strangle is an unlimited profit, limited risk strategy that is taken when the options trader thinks that the underlying stock will experience significant volatility in the near term. Long strangles are debit spreads as a net debit is taken to enter the trade.

Maximum profit is unlimited. Maximum loss is limited (to premiums paid for purchasing both types of options). Time decay has a negative effect. High volatility has a positive effect. Low volatility has a negative effect.

C.7.b.11. Short Straddle

The short straddle, also known as a sell straddle or naked straddle sale, is a neutral options strategy that involves the simultaneous selling of a put and a call of the same underlying security, strike price and expiration date. Short straddles are limited profit, unlimited risk options trading strategies that are used when the options trader thinks that the underlying securities will experience little volatility in the near term.

Maximum profit is limited (to premiums received for writing both types of options). Maximum loss is unlimited. Time decay has a positive effect. High volatility has a negative effect. Low volatility has a positive effect.

C.7.b.12. Short Strangle

The short strangle, also known as sell strangle, is a neutral strategy in options trading that involve the simultaneous selling of a slightly out-of-the-money put and a slightly out-of-the-money call of the same underlying stock and expiration date. The short strangle option strategy is a limited profit, unlimited risk options trading strategy that is taken when the options trader thinks that the underlying stock will experience little volatility in the near term. Short strangles are credit spreads as a net credit is taken to enter the trade.

Maximum profit is limited (to premiums received for writing both types of options). Maximum loss is unlimited. Time decay has a positive effect. High volatility has a negative effect. Low volatility has a positive effect.

C.7.c. Concentration Risk

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 7: Client Information Provided to Portfolio Managers

Each PDIV investment adviser representative participating in the program formulates his or her advice subject to approval by PDIV's investment committee of the investment methodology utilized by each participating financial advisor. Neither PDIV nor its financial advisors shares any personal information it collects from its clients other than as required by law or regulatory mandate. PDIV collects the following information in order to formulate its investment recommendations to clients:

- Income
- Employment and residential information
- Social security number
- Cash balance
- Security balances
- Transaction detail history
- Investment objectives, goals and risk tolerance

The following are the major factors PDIV considers when recommending and implementing investment recommendations:

- Sources of wealth and/or deposits
- Risk assessment
- Investment time horizon
- Income and liquidity needs
- Restrictions on management of account

Sources of information used to develop investment recommendations may include, but are not limited to, the following:

- Client questionnaire(s) and interview(s)
- Review of client's current portfolio
- Analysis of the long-term outlook for global financial markets
- Analysis of the long-term global economic and political environments

Item 8: Client Contact with Portfolio Managers

PDIV encourages communication between its clients and its financial advisors and does not limit or condition the amount of time clients can spend with PDIV advisory professionals.

Item 9: Additional Information

A. 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.1. Disclosure of Any Criminal or Civil Actions

Criminal: There is nothing to report on this item.

Civil: On February 1, 2012, PDIV's parent company Peregrine Financial Group, Inc. ("PFG") was sued by the court-appointed receiver for the estates of Trevor Cook, Patrick Kiley, Jason Beckman, UBS Diversified Growth, LLC, Market Shot, LLC, Oxford Global Advisors, LLC, Oxford Global Partners, LLC, Oxford Global FX, LLC, and Oxford Growth FX, LP. The suit (Docket No. 12-cv-00269-RHK-JSM) alleges that fraudulent transfers were made through PFG by the estates. The suit seeks restitution and is pending in the United States District Court of Minnesota.

A.2. Disclosure of Any Administrative Proceedings

There is nothing to report on this item.

A.3. Disclosure of Any Self-Regulatory Organization Proceedings

Peregrine Financial Group, Inc.

On February 8, 2012, the Business Conduct Committee of the National Futures Association ("NFA") simultaneously issued a complaint and a decision to Peregrine Financial Group, Inc. ("PFG"), the parent of PDIV. NFA alleged that PFG violated NFA Compliance Rule 2-9(a) in failing to diligently supervise four of its guaranteed introducing brokers and alleged that PFG violated NFA Compliance Rule 2-9(a) in failing to diligently supervise activities related to the firm's Forex customers' accounts by failing to ensure the implementation of effective anti-money laundering procedures related to some of those accounts. Without admitting or denying the allegations, PFG agreed to: 1) pay a fine of \$700,000; 2) retain an independent consultant to review existing procedures for supervising guaranteed introducing brokers and make recommendations which PFG will implement for supervision of trading in broker assisted retail customer accounts; 3) not to enter into new guarantee agreements with introducing brokers for two years

without first petitioning NFA; and 4) to designate a full-time anti-money laundering officer.

On June 9, 2004, the Business Conduct Committee ("BCC") of the National Futures Association ("NFA") issued a complaint to Peregrine Financial Group, Inc. ("PFG"). The complaint alleged that PFG failed to comply with an order issued by NFA's Membership Committee, in violation of NFA Compliance Rule 2-5. On June 9, 2004, NFA's BCC issued a Decision to PFG accepting PFG's settlement offer in which the firm neither admitted nor denied the allegations of the Complaint. The BCC ordered that PFG pay a \$5,000 fine within thirty days of the date of the Decision. The BCC also ordered that PFG adopt, and submit to NFA within thirty days of the date of the Decision, procedures to ensure future compliance with NFA's Compliance Rules as they relate to the supervision of conditioned registrants. Finally, the BCC ordered that PFG adopt, and submit to NFA within thirty days of the Decision, procedures to ensure future compliance with all provisions of the Amended Final Order Granting Conditional Registration to Dominick Concilio, dated May 20, 2002. The Decision became effective on June 24, 2004.

These matters have not, nor will they, affect the operations or financial stability of Peregrine Financial Group, Inc., or PDIV.

A.4. Mark John Lishchynsky

On November 22, 2006, the National Association of Securities Dealers ("NASD") alleged that Mark John Lishchynsky failed to ensure that the member firm's offsite FINOP was aware of at least \$31,602.11 worth of liabilities and that the liabilities were properly recorded on the firm's books and records in violation of NASD Rule 2110. Without admitting or denying the findings, the respondent (Lishchynsky) consented to the described sanction and to the entry of findings and was fined \$5,000. Subsequently, the respondent was late with the final payment of the monetary fine and as a result, his license was revoked until final payment was made. The revocation occurred on June 16, 2009, and was lifted on June 19, 2009.

B. Other Financial Industry Activities and Affiliations

B.1. Broker-Dealers Affiliated with PDIV

B.1.a. Best Direct Securities, LLC

BEST Direct Securities, LLC, a member of FINRA/SIPC, 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 Peregrine Financial Group, Inc.'s investment advisor representatives are dually licensed with BEST Direct Securities, LLC. PDIV may recommend 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.1.b. World Equity Group, Inc.

World Equity Group, Inc. is an independent broker-dealer and a member of FINRA/SIPC. Many of PDIV's investment advisor representatives are registered with World Equity Group as registered representatives to facilitate certain insurance transactions. World Equity Group is not affiliated with PDIV or any of PDIV's affiliate entities. PDIV does not recommend its advisory clients to establish accounts at World Equity Group; clients may elect to establish brokerage relationships with the firm of their choice.

B.2. Futures or Commodity Registration

B.2.a. CFTC-Registrants Affiliated with PDIV

B.2.a.1. Peregrine Financial Group, Inc.

Peregrine Financial Group, Inc. owns 100% of the shares of Peregrine. 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.a.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, Inc. currently serves as an investment manager to four commodity pools: 1) PECTA, LLC (in the process of being dissolved); 2) PECTA II LLC; 3) Desert Wind Fund, LLC; and 4) Gold Bullion

International, LLC. PDIV may recommend its advisory clients to consider investing in these funds. PDIV will not charge an advisory fee on assets its clients invest in Peregrine Asset Management's commodity pools.

B.2.a.3. Peregrine Capital Advisors, Inc. (PCA)

Peregrine Capital Advisors, Inc. (PCA) (SEC registered investment adviser) is a wholly owned subsidiary of Peregrine Asset Management, Inc. (which is a wholly owned subsidiary of Peregrine Financial Group, Inc.). PDIV is also a wholly owned subsidiary of Peregrine Financial Group. PCA advises an affiliate mutual fund, Peregrine Gold Silver Alpha Strategy Fund. PDIV may recommend an investment in the Peregrine Gold Silver Alpha Strategy Fund to advisory clients. Clients should be aware that a potential conflict of interest exists in that PDIV, its parent and affiliate companies are economically incented to sell investment products of its affiliates. PDIV will not charge an advisory fee on assets its clients invest in PCA's affiliate mutual fund.

B.2.a.4. 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.

B.2.b. Other Regulators-Registrants Affiliated with PDIV

B.2.b.1. Peregrine Financial Group Canada, Inc.

Peregrine Financial Group Canada, Inc. is a wholly owned subsidiary of Peregrine Financial Group, Inc. and is registered with the Investment Industry Regulatory Organization of Canada ("IIROC") as an Investment Dealer Member for futures and futures options.

B.2.b.2. ChiFX, LLC

ChiFX, LLC, is a wholly owned subsidiary of Peregrine Financial Group, Inc. ("PFG") and carries a Chicago Mercantile Exchange Electronic Membership for the purposes of conducting proprietary trading in Chicago Mercantile Exchange-listed products.

B.3. 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 or Fidelity Institutional Wealth Services division of Fidelity Investment Corporation, which clears through National Financial Services, LLC, member NYSE, SIPC ("IWS").

PDIV is also affiliated with BEST Direct Securities, LLC, a FINRA-registered broker-dealer, member SIPC, and a fully disclosed introducing broker clearing through Sterne Agee &

Leach, Inc. PDIV neither custodies assets nor executes advisory client trades through Sterne Agee & Leach, Inc. or BEST Direct Securities, LLC.

PDIV and BEST Direct Securities, LLC, are both controlled by Peregrine Financial Group, Inc., which is controlled by Russell Wasendorf, Sr. PDIV does not execute advisory client trades through BEST Direct Securities, LLC.

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.

C. Code of Ethics, Brokerage Trading Practices, Account Reviews, and Financial and Related Matters

C.1. 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.

C.1.a. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest

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).

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. 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.

In particular, Peregrine Asset Management, Inc., an affiliate of Peregrine, 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 (in the process of being dissolved); 2) PECTA II LLC; 3) Desert Wind Fund, LLC; and 4) Gold Bullion International, LLC. PDIV may recommend its advisory clients to consider investing in any or all of these funds. PDIV will not charge an advisory fee on assets its clients invest in

Peregrine Asset Management's commodity pools. Additionally, Peregrine Capital Advisors, Inc., an SEC-registered investment adviser and a wholly owned subsidiary of Peregrine Asset Management, advises an affiliate mutual fund, Peregrine Gold Silver Alpha Strategy Fund. PDIV may recommend an investment in the Peregrine Gold Silver Alpha Strategy Fund to advisory clients. PDIV will not charge an advisory fee on assets PDIV clients invest in Peregrine Asset Management's commodity pools or the Peregrine Gold Silver Alpha Strategy Fund.

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 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.1.b. 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.

C.1.c. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest

PDIV, its affiliates, employees and their families, trusts, estates, charitable organizations and retirement plans established by it, may effect securities transactions for their own accounts that differ from those recommended or effected for other PDIV clients. PDIV will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee or employee-related accounts. Trades executed the same day will likely be subject to an average pricing calculation. It is the policy of PDIV to place the client's interests above those of PDIV and its employees.

C.2. Factors Used to Select Broker-Dealers for Client Transactions

PDIV recommends that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc. ("Schwab"), a FINRA-registered broker-dealer, member SIPC, or with the Fidelity Institutional Wealth Services division of Fidelity Investment Corporation ("IWS"), which clears through National Financial Services, LLC, member NYSE, SIPC ("NFS") to maintain custody of clients' assets and to effect trades for clients' accounts. Although PDIV requires that clients establish accounts at Schwab or IWS, it is a client's decision to custody assets with Schwab or IWS. PDIV is independently owned and operated and not affiliated with Schwab or IWS.

PDIV is affiliated with BEST Direct Securities, LLC, a FINRA-registered broker-dealer, member SIPC, and a fully disclosed introducing broker through Sterne Agee & Leach, Inc. PDIV neither custodies assets nor executes advisory client trades through Sterne Agee & Leach, Inc. or BEST Direct Securities, LLC.

For PDIV client accounts maintained in its custody, Schwab and IWS generally 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 Schwab or IWS or that settle into Schwab or IWS accounts.

PDIV participates in the institutional customer programs offered by Schwab and IWS. Through these programs, Schwab and IWS offer various services to independent investment advisers, including custody of securities, trade execution, and clearance and settlement of transactions. PDIV receives some benefits from Schwab and IWS through its participation in these programs, as described below.

C.2.a. Institutional Trading and Custody Services

Schwab and IWS provide PDIV with access to their institutional trading and custody services, which are typically not available to Schwab and Fidelity retail investors. At Schwab, 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 or IWS any specific amount of business (assets in custody or trading commissions). Schwab and IWS' 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.

C.2.b. Other Products and Services

Schwab and IWS also make 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 or IWS. Schwab and IWS also makes available to PDIV 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 and IWS also offer 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 and 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 Schwab or 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 Schwab and IWS, which may create a potential conflict of interest.

C.3. Aggregating Securities Transactions for Client Accounts

C.3.a. 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 or the Fidelity Institutional Wealth Services ("IWS") division of Fidelity Investment Corporation, which clears through National Financial Services, LLC, member NYSE, SIPC ("IWS") 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, and the executing broker 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.

C.3.b. Directed Brokerage

C.3.b.1. PDIV Recommendations

PDIV typically recommends Schwab Advisor Services, a FINRA-registered broker-dealer, member SIPC, or the Fidelity Institutional Wealth Services division of Fidelity Investment Corporation ("IWS"), which clears through National Financial Services, LLC, member NYSE, SIPC ("NFS"). , as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

C.3.b.2. 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.

C.3.c. 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.

C.3.d. 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.

C.3.e. 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.

C.3.f. Soft Dollar Arrangements

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

C.3.g. Brokerage for Client Referrals

PDIV does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients, nor does PDIV receive payment for the referrals PDIV may make.

D. Review of Accounts**D.1. Schedule for Periodic Review of Client Accounts and Advisory Persons Involved**

The review of accounts of high-net-worth and affluent clients, including corporations, partnerships and trusts, are conducted in the first instance by the professional servicing the client relationship. Such professionals are subject to the general authority of PDIV's Chief Compliance Officer. The Chief Compliance Officer or his designee(s) must review and approve the opening of each new advisory relationship and oversee reviews of client accounts. The Chief Compliance Officer or his designee(s) is also responsible for ensuring that any significant change in a client's investment strategy or in the concentration of a client's assets is appropriate for and has been reviewed with the client.

D.2. Review of Client Accounts on Non-Periodic Basis

PDIV may perform *ad hoc* reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how PDIV formulates investment advice.

D.3. 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 account and supersedes any statements or reports created on behalf of the client by PDIV.

E. 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.

F. Financial Information

F.1. Balance Sheet

PDIV does not require the prepayment of fees of \$1,200 or more, six months or more in advance, and as such is not required to file a balance sheet.

F.2. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients

PDIV does not have any financial issues that would impair its ability to provide services to clients.

F.3. Bankruptcy Petitions during the Past Ten Years

There is nothing to report on this item.

G. 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.

H. Investment Discretion

PDIV, pursuant to the terms of its investment advisory agreements with clients, has discretionary authority to determine which securities are to be bought and sold, the price of such securities, and the executing broker to effect such transactions.

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.

I. 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 10: Requirements for State-Registered Advisors

There is nothing to report on this item.