

PART 2A OF FORM ADV

ITEM 1: COVER PAGE

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Brochure date: December 31, 2012

This brochure provides information about the qualifications and business practices of Monarch Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at

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The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Monarch Capital Management, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

Monarch Capital Management, Inc. is registered as an investment manager at the Securities and Exchange Commission. Registration does not imply a certain level of skill or training.

ITEM 2: MATERIAL CHANGES

This brochure reflects a change of custodians from Merrill Lynch (Negotiated Brokerage) to Pershing Advisor Solutions (Recommended Brokerage).

ITEM 3: TABLE OF CONTENTS

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ITEM 4: ADVISORY BUSINESS

Monarch Capital Management, Inc. (“Monarch”) provides **investment advisory services** to investors. Services consist of the management of client portfolios through the use of equity (stocks) and debt (bonds) securities. Monarch has been in business since August 16, 1994. Its principal owners are members of the Meyer family: David M. Meyer, John D. Meyer and Katherine K Moenter.

Monarch’s primary business is to invest our clients’ portfolios directly into stocks and bonds. We assess our clients’ needs and customize an investment strategy and action plan that best helps them meet their objectives. We also consider their income needs, where they want their money to go in the future, their income and estate tax considerations and their tolerance for volatility.

Our advice is limited to the types of investments named above. For a more detailed description of these investments, see Item 8 “Methods of Analysis, Investment Strategies, and Risk of Loss” on Page 5.

All of Monarch’s clients’ assets are managed on a discretionary basis with courtesy consultation if a client requests. A client grants investment discretion to Monarch by executing a limited power of attorney with the custodian at the time the account is opened. Our clients may impose restrictions on investing in certain securities or types of securities.

Assets under management as of December 31, 2012 were \$264,364,150.

We also offer **financial advisory services** on personal and family financial matters that include

- creating a personal balance sheet or net worth statement that details all financial assets and liabilities (debts),
- analyzing financial holdings including holdings’ proportions and investment sector allocations,
- discussing a wealth transfer plan analysis that outlines the workings of a client’s estate plan,
- creating a personal budget with estimated income and expenses,
- creating and implementing a financial action plan which includes the compilation of a list of decisions to consider and actions to take,
- analyzing and discussing financial decisions such as whether to use cash or a loan for a purchase and how and when to make gifts.

Monarch offers **bill-paying services** through a separate custodial agreement with the client.

ITEM 5: FEES AND COMPENSATION

Fees for **investment advisory services** are payable quarterly in advance and are based on the market value of assets under management. For example, fees for the 1st quarter are charged based on the yearend market value and are paid during the first part of the 1st quarter. Clients have the option of having fees deducted from their account or billed directly to them. Fees are calculated at the following annual rates:

Balanced or Equity Accounts

1.00% on the first \$3,000,000
0.75% on the next \$7,000,000
0.50% on the remainder

Fixed Income Accounts

0.50% on the first \$2,000,000
0.40% on the remainder

In some special circumstances, the investment management fee may be negotiable. A fixed fee has been and may be negotiated in cases where account maintenance is the goal because low cost basis securities prevent active management of the account.

Some clients do not choose our investment advisory services but choose non-managed **financial advisory services** instead where a negotiated, but fixed, engagement fee applies. This fee is billed at the time the service is performed or may be billed quarterly if the service is ongoing.

The fee for **bill-paying services** is negotiated depending on the volume and frequency of the service. Any fees for a required surprise audit are passed on to the client.

The client may terminate services at any time by writing and delivering the request to Monarch. Likewise, Monarch can write to the client and resign. Upon termination, fees are refunded promptly on a pro-rata basis from the date of termination. Since fees are charged in advance, termination of our services on any date other than on the first day of a calendar quarter would require a refund. For example, if a client terminates our services on February 1st, he or she would receive a refund of fees from February 1st through March 31st.

Monarch's investment management contract states that the contract may be terminated without penalty within 5 business days after entering into the contract. "Without penalty" means that no management fee will be charged.

The fees described above are the only fees Monarch charges. It receives no other compensation.

Additional fees (not fees payable to Monarch) may be incurred. Examples are trustee fees, commissions billed by the broker for purchases and sales, and trade-done-away fees when assets are purchased or sold through another broker. Please see Item 12, “Brokerage Practices,” on page 8 for more information.

If mutual funds are held in a client’s account, Monarch may include these funds in the assets subject to management fees. When this occurs, the client will pay two levels of advisory fees for the management of their mutual fund assets, both directly to Monarch and indirectly through the fees charged to the mutual fund by its manager.

ITEM 6: PERFORMANCE-BASED FEES

Monarch does not charge performance-based fees (fees based on a share of capital gains or capital appreciation of managed assets).

ITEM 7: TYPES OF CLIENTS.

Monarch provides investment advisory services to individuals, trusts, foundations, and pension plans. Monarch provides financial advisory services and bill-paying services to individuals.

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

Securities within clients’ accounts are reviewed on an ongoing basis by the portfolio managers, whose daily activities include reading and analyzing research and financial reports, monitoring price performance, and studying economic trends.

Accounts are formally measured monthly and reviewed quarterly for performance of the portfolio and, if appropriate, can be measured by asset class (stocks, bonds, cash). The review compares account performance to appropriate market indexes, such as the Standard & Poors 500 or fixed income indexes, to determine the effectiveness of the account management during the quarter.

We categorize stock in our clients’ portfolios as:

- **Core Stocks:** the highest-quality growth companies, which form the “core” of most of our portfolios.
- **High-yield stocks:** high-quality companies which pay out a much higher share of their earnings in the form of dividends, giving them high dividend yields. While they offer less stability than bonds, their dividend growth should allow income to grow whereas income from bonds and CDs does not grow. This is an important

distinction when considering the impact of inflation on the cost of living in the long term.

- **Small Caps:** small companies with many of the same characteristics of our core stocks, but whose growth prospects are more open-ended than those of large companies. These are valuable only for clients whose risk tolerance supports their inclusion.
- **Aggressive growth stocks:** companies growing very rapidly, which make for riskier investments.
- **Preferred stocks:** securities that have elements of both bonds (high yields, fixed coupon, and are callable) and stocks (less protection of principal, trading volatility). While yields are generally attractive, interest rate risk is significant, because they have long lives to maturity or have no maturity. Combined with the lack of principal protection, preferreds are only for clients with a very high tolerance for risk.
- **Client-directed stocks:** companies to which a client has a personal connection, a special interest, or tax issues (such as a low cost basis).
- **Index funds and ETFs (exchange traded funds):** where appropriate we will gain exposure to certain asset classes, such as international stocks, through passively-managed index funds.

In many of our portfolios, Monarch also invests in bonds. Our main objective with bonds is **safety of principal**, plus a satisfactory return. Following are criteria we use:

- **Credit quality** is the primary consideration. Remembering the dangers of “reaching for yield,” we will pass over bonds offering an egregiously high interest rate, which may be superficially attractive but frequently carry an above-average level of investment risk.
- **Credit ratings** are something of a guide but cannot be relied upon as any guarantee of an issuer’s solvency. Likewise, **bond insurance** has been found to offer little protection for bond investors in times of serious trouble. The portfolio manager must do his best to choose bonds that are well funded by the issuer – a difficult judgment call sometimes.
- Generally we buy **high-quality bonds** with the intention of **holding until maturity**. We may sell a bond early if circumstances change, and there appears a possibility that the issuer may default.
- We do not view bonds as candidates for short-term trading and **we do not generally make large bets on the direction of interest rates**. To hedge against interest rate risk (the ups and downs of interest rates over time), we employ a simple “ladder of maturities” strategy (a series of bonds with a range of maturities) for our bonds, which levels out fluctuations for the overall portfolio.
- Interest rate risk (the danger of bond prices falling as rates rise) is greatest for long-term bonds. Therefore, we operate mainly in the **short-to-medium** range (less than ten years), and are wary of longer maturities, especially in a low-rate environment where the risk is highest. In a high-rate environment, we may be willing to extend maturities somewhat.

- When Monarch buys **callable bonds** (bonds that can be redeemed by the issuer before maturity), we invest on both a yield-to-call and a yield-to-maturity basis. Callable bonds must still fit in with a laddered maturity strategy and adhere to our quality criteria.

Monarch's typical portfolio is a collection of individual stocks and bonds held long (owned outright) with no leverage (borrowing to invest). Occasional deviations (options, mutual funds) may occur at the client's request, but exotic investment methods are not Monarch's style, as we strive to keep things simple.

Investing in marketable securities carries with it risk of loss that clients should be prepared to bear. Monarch's clients understand that financial markets fluctuate and can produce losses. That said, however, it is Monarch's job to minimize such risk.

Monarch's basic strategy is to own individual stocks and bonds in portfolios held for many years with minimum turnover. Monarch attempts to minimize risk of loss by

- Investing only in securities of profitable and established companies with which we are familiar,
- Seeking to avoid overpaying,
- Diversifying portfolios to avoid risk of large losses from exposure to a single security,
- Avoiding margin or leverage, which might exaggerate volatility.

Despite Monarch's best efforts, markets sometimes bring humbling setbacks. Monarch generally steers clear of lower-grade securities threatening "significant or unusual" risks. They are not appropriate for our clients. Even so-called high-grade securities have their hazards, which we address above.

ITEM 9: DISCIPLINARY INFORMATION

There are no legal or disciplinary matters past or present for Monarch or for any individual working here.

ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Monarch has no affiliations with any other industry group. For example, no one at Monarch is a broker or an insurance agent.

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

Monarch affirms our duty of fiduciary care and requires that all of us conduct ourselves with integrity and loyalty, and in good faith to always act in the best interest of our clients. We pledge to avoid or disclose immediately any actual or potential conflict of

interest and commit to safeguard clients' nonpublic personal information. A full copy of Monarch's Code of Ethics is available upon request.

The principals or employees of Monarch may own a security that is owned by our clients. Strict procedures are followed that prohibit any principal or employee transaction from conflicting with the best interest of our clients. Specifically, in purchasing or selling any security for our own accounts our purchases or sales may be aggregated with other clients in "bunched trades" for the purpose of seeking the best execution (which includes the duty to seek best price). No advisory client or principal or employee of Monarch is favored over any other; each that participates in an aggregated order will participate at the average share price for all Monarch's transactions in that security in that aggregated order.

If a principal or employee of Monarch wishes to buy or sell a security that is owned by any of our clients, and there are no client trades with which it can be aggregated, the trade is held until the later of 3:30 p.m. or after all other client trades have been placed that day. Each of these trades is reviewed in advance by either the President or the Chief Compliance Officer to be certain there is no conflict with any client transaction.

ITEM 12: BROKERAGE PRACTICES

Clients of Monarch may hold their assets in custody at any qualified custodian. There are currently three types of brokerage arrangements among its clients: **Recommended**, **Discretionary** and **Directed** which are determined by where a client's assets are held in custody. Following is an explanation of each.

Pershing custody ("Recommended Brokerage")

Monarch may recommend that clients establish brokerage accounts with Pershing Advisor Solutions LLC ("Pershing") of One Pershing Plaza, 95 Christopher Columbus Drive, Jersey City, New Jersey 07399, a FINRA registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although Monarch may recommend that clients establish accounts at Pershing, it is the client's decision to custody assets with Pershing. Monarch is independently owned and operated and not affiliated with Pershing.

For Monarch's client accounts maintained in its custody, Pershing generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through Pershing or that settle into Pershing accounts.

Pershing also makes available to Monarch other products and services that benefit Monarch 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 Monarch's accounts, including accounts not maintained at Pershing.

Pershing's products and services that assist Monarch in managing and administering clients' accounts include software and other technology that (i) provide access to client account data (such as trade confirmations and account statements); (ii) provide research, pricing and other market data; (iii) facilitate payment of Monarch's fees from its clients' accounts; and (iv) assist with back-office functions, recordkeeping and client reporting.

Pershing also offers other services intended to help Monarch manage and further develop its business enterprise. These services may include: (i) compliance, legal and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to employee benefits providers, human capital consultants and insurance providers. Pershing may make available, arrange and/or pay third-party vendors for the types of services rendered to Monarch. Pershing may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to Monarch. Pershing may also provide other benefits such as educational events or occasional business entertainment of Monarch's personnel. In evaluating whether to recommend that clients custody their assets at Pershing, Monarch 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 Pershing, which may create a potential conflict of interest.

Not all investment advisers recommend a particular broker to their clients.

Institutional (Bank) custody where Monarch has the discretion to select the broker for each trade ("Discretionary Brokerage")

Clients may hold their assets in custody at a financial institution—usually a bank. In those cases Monarch places brokerage transactions with securities brokers that Monarch believes will provide the best value in brokerage and research services for our clients.

It is important for Monarch in performing its responsibility to the client, to receive and evaluate the broad spectrum of economic and financial information, which many securities brokers have customarily furnished in connection with brokerage transactions. In compensating brokers for these services through commissions on trades, it continues to be in the interest of the client to take into account the value of the information received.

The research information received from any broker is used to benefit all clients.

In valuing brokerage services for institutional portfolios, Monarch makes a judgment as to which brokers are capable of providing a favorable net price (not necessarily the lowest commission considered alone) and a reasonable execution in a particular transaction.

Reasonable execution means not only general competence and reliability, but specific expertise and effort of a broker in overcoming the anticipated difficulties in fulfilling the requirements of particular transactions.

It is possible that a client whose assets are held in custody at a financial institution may want to direct trades to a particular broker or brokers. Although a rare occurrence and one not presently in existence among Monarch clients, it will be treated the same as a “directed brokerage” account as described below with respect to commissions, aggregated trades and potential conflicts.

Custody at other brokers (“Directed Brokerage”)

In Directed Brokerage, Monarch will place all or almost all of the transactions with the broker and brokerage firm which the client designates and where the client’s assets are held in custody. The client makes this designation on the investment management contract executed prior to the beginning of the management process.

With Directed Brokerage clients, Monarch does not negotiate commission rates with the brokerage firm or its registered representative selected by the client. Clients may negotiate commission rates with the registered representative of the firm they designate. The factors involved in such negotiation may include the size of the client’s account, the brokerage firm’s policy with respect to discounts, the client’s relationship with the firm’s representative and other factors. Monarch’s Directed Brokerage clients may negotiate for and receive commission discounts in varying amounts. Unless a lower rate has been negotiated on his or her own behalf, the client should expect that the designated brokerage firm will charge commissions based upon the firm’s established non-discounted commission schedule.

For Directed Brokerage clients, Monarch does not negotiate volume commission discounts. If a designated broker is allowed a commission in excess of that which another broker may have charged for executing the same transaction, it is done in recognition of the acknowledged commission level agreed to in advance between the client and the designated broker. Directed Brokerage clients will not necessarily obtain commission rates as favorable as those that might be obtained if Monarch did undertake to select the brokerage firm and to negotiate commission rates with that firm, and that may cost clients more money in trading costs.

Therefore, a potential conflict exists between the interest of Monarch’s Directed Brokerage clients in obtaining the lowest commission and Monarch’s receipt of future referrals from the client’s broker. However, in the history of Monarch there have been fewer than 10 accounts referred to us by a broker and none in over 10 years.

When Monarch Capital Management has, at the same time, orders involving all three types of brokerage arrangements, Monarch enters all orders simultaneously, if the trades

are sent electronically. If a directed brokerage account's transaction cannot be sent electronically at the same time as the others, it is executed first.

Occasionally, Monarch will be required to execute an order with a brokerage firm other than the firm where the Recommended and Directed Brokerage accounts are held. In this instance, the Recommended and Directed Brokerage client should expect to be charged a commission or mark-up by the non-designated broker as well as the designated broker. Specifically, Pershing charges a \$12 trade-done-away fee.

Strategas

Monarch may place trades for its **Discretionary Brokerage** clients at Strategas in order to receive research from Strategas Research Partners, LLC, an investment strategy, macro-economic and policy research firm. The commissions from trades executed by Strategas help to pay for its research service. Commissions are \$0.04 per share.

Monarch saves money in paying for the Strategas research with commissions from trades. The commissions go directly to pay for the research. If commissions do not cover the cost of the research, Monarch pays the balance due. This is reviewed and paid annually. Use of the Strategas research benefits all of Monarch's clients.

Because Monarch wants to receive Strategas research, we have an incentive to place trades there. This may create a conflict of interest if our clients do not receive favorable execution. Execution prices are monitored. See "Other Brokerage Practices" below.

Aggregated Trades

Monarch frequently makes aggregated trades at Pershing and Strategas and may do so at other brokers, if feasible. These trades, where client trade orders are "bunched," may include both Discretionary Brokerage and Recommended Brokerage accounts and Directed Brokerage accounts, when applicable. Clients participating in an aggregated trade receive an average execution price. In instances where multiple trades are required to fill an aggregated order, the broker provides Monarch with an average price for all trades. In the case where only a part of a trade is filled, Monarch's trading software randomly allocates the available shares to clients and those clients receive an average execution price. It is possible to have more than one aggregated trade on a given day. If this happens, each aggregated trade is treated independently, and the above procedures will apply to clients for the aggregated trade in which they participate. Aggregated trades at Strategas occur only if the same custodian is involved. Clients participating in aggregated trades pay the same commission rate as non-aggregated trades.

Other Brokerage Practices

Discussed above are many factors that make up “**best execution**,” which is Monarch’s duty to seek the most favorable terms reasonably available in executing its clients’ securities transactions. Some of the criteria in evaluating “best execution” are subjective. However, in evaluating whether the broker achieves best price execution, Monarch systematically evaluates the execution performance of brokers executing client trades. For all equity trades executed, the price at the time the order is placed is recorded and compared to the price at which the order is filled. Any disparities of 1% or more, which are not in the client’s favor, are investigated at the time they occur. If the investigation does not produce any external factors, such as size of trade in a thinly-traded stock, the broker is contacted for an explanation and, if appropriate, restitution is requested.

When Monarch makes trades in **over-the-counter securities**, the trades may sometimes not be placed with the market-making broker. When this happens, the client, in addition to the commissions assessed by their custodian broker, will incur a transaction cost. Normally, best price and execution are obtained for over-the-counter securities transactions by executing directly with the market-maker on a principal basis. To the extent that this does not happen, Monarch’s ability to obtain best price and execution is limited or eliminated.

Monarch does not, as a general rule, participate in **initial public offerings** (“IPOs”) of equity investments. However, in the event Monarch does participate certain procedures will apply:

- No Monarch principals or employees or their families may participate in any IPO. This exclusion also applies to any corporate account of Monarch, including its profit sharing plan.
- Monarch will not selectively allocate IPO shares in response to individual client requests or on the basis of subjective criteria.
- IPO shares will be offered to all accounts whose investment objective allows for purchase of equities. Each client who qualifies will be contacted, but only those who affirmatively elect to participate will be included in the allocation.
- A Monarch client may participate in an IPO through another relationship, but wish to purchase the security in the Monarch account. If this happens, Monarch will follow the direction of the client.

It is Monarch’s policy to correct **trading errors** as soon as they are discovered. We never try to “play” the market to see if the trade can be corrected with no damage to us. The trade is corrected as soon as it is discovered and the customer is made whole if there is a loss due to Monarch’s error.

ITEM 13: REVIEW OF ACCOUNTS

Investment Advisory Services

The portfolio managers, David Meyer, George Donner and John Meyer, review all investment advisory accounts on an ongoing basis. This is necessary to keep the accounts consistent with the major trends in the financial markets. Of particular importance in these reviews is asset mix as well as the specific securities within the asset mix.

In addition to the monthly statements supplied by the custodian, clients also receive the following written quarterly reports from Monarch:

- Asset list with cost basis and quarter-end market values
- Realized gains and losses for the quarter and year to date (taxable accounts only)
- Performance report for the quarter, year to date and inception to date

At the time customers receive their first full quarterly report, they also receive an explanation of how to compare our reports to the ones received from the custodian.

Financial Advisory Services

As mentioned earlier on page 3, Monarch also provides financial advisory services. The frequency and level of review of financial advisory services will be determined by the engagement agreement. At minimum, an annual, in-person review will be conducted with each client. More frequent consultations may occur and be triggered by changes in a client's personal financial circumstances, the regulatory climate, and market conditions.

Depending on the client, the review may include the following:

- A personal balance sheet or net worth statement that details all financial assets and liabilities (debts).
- An investment analysis of financial holdings that includes holdings' proportions and investment sector allocations.
- A wealth transfer analysis that outlines the workings of a client's estate plan.
- A financial action plan that includes a list of decisions to consider and actions to take.
- A personal budget with estimated income and expenses.

Bill-paying Services

Bill-paying services are discussed below under Item 15, "Custody."

ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

Monarch has entered into cash bonus agreements with its principals where the principal is paid 25% of the first year's fee for any new business brought to Monarch or significant deposit to an existing account for which the principal is responsible. A pool of 25% of the first year's fee for these same accounts is created to be shared equally by all other principals. The remaining 50% of the fee remains with Monarch. After the first year, Monarch retains the entire fee.

Noel Knox joined Monarch on January 1, 2006. His cash bonus agreement is 50% of the first year's fee for any new business or significant deposit to an existing account brought to Monarch on account of his efforts. These fees are not included in the calculation of bonuses paid to the principals of Monarch as outlined in the paragraph above.

Monarch pays no compensation to any outside person for referring clients to it.

ITEM 15: CUSTODY

Monarch offers bill paying as a service. Having access to a client's checking account for this purpose means Monarch has custody of the checking account's assets and must disclose to those clients that they should carefully review the checking account statement they receive from their bank or other qualified custodian. Payments requested by Monarch are reviewed internally on a monthly basis and are subject to an annual surprise audit by an Independent Certified Public Accountant.

ITEM 16: INVESTMENT DISCRETION

See Item 4, "Advisory Business," on page 3.

ITEM 17: VOTING CLIENT SECURITIES

As part of its investment management responsibility for retirement plan clients, Monarch votes shareholder proxies. Monarch will vote proxies for non-retirement clients if the client requests it in writing.

Monarch has adopted written policies and procedures reasonably designed to ensure it votes proxies in the best interest of clients.

If an actual or potential conflict is found between Monarch and our client, the client will receive written notification of the conflict (the "Conflict Notice"). This notice will be in sufficient detail and with sufficient time to reasonably inform the client (or in the case of an employee benefit plan, the plan's trustee or other fiduciary) of the actual or potential conflict involved. The Conflict Notice will either request the client's consent to Monarch's vote recommendation or may request the client to vote the proxy directly or through another designee of the client.

In a particular situation, a client may direct Monarch's vote by notifying it in writing in sufficient time to carry out the request prior to the annual meeting.

Available on request are details of how Monarch votes any proxy and a copy of the Proxy Voting Policy and Procedures.

Clients retaining their right to vote proxies will receive their proxy statements from the custodian of their assets. Clients can contact Monarch by telephone or email with any questions about a particular solicitation.

ITEM 18: FINANCIAL INFORMATION

There are certain practices and situations that require an investment advisor to disclose financial information. Monarch is not subject to this requirement.