

**DISCLOSURE BROCHURE**

**9/16/2011**

This brochure provides information about the qualifications and business practices of Stifel, Nicolaus & Company, Incorporated. This brochure focuses on our Advisory Consulting Services; we also offer financial planning services and wrap fee programs, each of which is covered in a separate brochure. If you have any questions about the contents of this brochure, please contact us at the address or telephone number provided below. 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 Stifel, Nicolaus & Company, Incorporated is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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**MATERIAL CHANGES**

**09/16/2011**

Since Stifel, Nicolaus & Company, Incorporated's last annual update on March 31, 2010, the firm has experienced the following change which may be considered material.

- Stifel, Nicolaus & Company, Incorporated is a wholly owned subsidiary of Stifel Financial Corp. (NYSE: SF). On July 1, 2010, Stifel Financial Corp. acquired Thomas Weisel Partners Group, Inc. As a result of the transaction, in addition to the existing affiliated relationships Stifel, Nicolaus & Company, Incorporated has with other Stifel Financial Corp. subsidiaries, Stifel, Nicolaus & Company, Incorporated also became affiliated with Thomas Weisel Partners LLC, TW Asset Management LLC, Thomas Weisel Capital Management LLC, and Thomas Weisel Global Growth Partners LLC.
- The firm has entered into consent agreements with the following additional States in connection with auction rate securities: State of Ohio on April 14, 2011; and Maryland on May 13, 2011.
- Effective July 1, 2011, Stifel Financial Corp. acquired a controlling interest in MB Advisory Group, LLC, the parent company to Miller Buckfire & Co., LLC a registered broker dealer and investment advisory firm.
- As of July 5, 2011, the firm has a new affiliate, Stifel Trust Company, National Association (NA), that operates as a trust company and provides personal trust services to individuals and organizations.

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## EXECUTIVE SUMMARY

### About Stifel, Nicolaus & Company

Stifel, Nicolaus & Company, Incorporated (“Stifel”) is a leading full-service regional brokerage, investment advisory (“Advisory”), and investment banking firm, serving investment and capital needs of individual, corporate, institutional, and municipal clients. Stifel is a member of the Financial Industry Regulatory Authority (“FINRA”), the New York, American, Chicago, Philadelphia, and Chicago Board Options Exchanges, and the Securities Investor Protection Corporation (“SIPC”). Stifel is a registered investment adviser with the SEC; however, this does not imply a certain level of skill or training. Information about our qualifications, business practices, portfolio management techniques, and affiliates is accessible via publicly available filings with the Securities and Exchange Commission (“SEC”) at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) and in this brochure, which is provided free of charge before or at the time we enter into an advisory agreement with you and annually thereafter.

### Services We Provide

Stifel is registered with the SEC as a broker dealer and investment adviser offering both brokerage and Advisory services, respectively. For more information relating to our brokerage business, please refer to the Brokerage Practices section of this brochure. ***It is important to understand that brokerage services are separate and distinct from Advisory services, and that each is governed by different laws and separate contracts with clients. While there are similarities among brokerage and Advisory services, the firm’s contractual relationship with and legal duties to clients are subject to a number of important differences depending on whether Stifel is acting in a brokerage or Advisory capacity.*** We may, directly or through an affiliate, act as a general partner to investment partnerships. These investment partnerships may be offered to brokerage clients, some of whom may also be Advisory clients. Solicitation activities for investment partnerships are typically made via an offering circular or prospectus and may only be made to clients for whom the partnership interests are deemed suitable. To the extent that an Advisory client invests in an investment partnership in which our firm or an affiliate acts as general partner, the related partnership interests are not held in Advisory portfolios.

## ADVISORY BUSINESS

### About our Investment Adviser

Stifel has been a registered Investment Adviser with the SEC since May, 07, 1975 (as such, “Investment Adviser”). Our firm is owned by Stifel Financial Corp., a publicly held company. Our Advisory services include discretionary account and/or portfolio management, non-discretionary investment advice, financial planning services, and assistance with the selection of securities and third party investment advisers. Such advisers may include firms that are independent of our firm (“Independent Advisers”) as well as firms that are owned by Stifel Financial Corp. (“Affiliated Advisers”). We enter into written agreements with Clients acknowledging our Advisory relationship and disclosing our obligations when acting in an Advisory capacity. Advisory services are provided to individuals, corporations, institutions, pension or profit sharing plans, employee benefit plans, trusts, estates, charitable organizations, other business and government entities, educational institutions, and banks or thrift institutions (“Clients”). We generally provide Advisory services through our registered investment advisory representatives (“Financial Advisors”) who determine services that are most appropriate for Clients

based on individual investment goals and financial circumstances. We may fulfill a Client’s wealth management needs by acting as broker dealer, Investment Adviser, or both. Our Advisory services cover most types of debt and equity or equity-related securities of domestic and foreign companies and national and local government issuers, both that are exchange-listed and over-the-counter. Services relating to rights and warrants, securities, options, certificates of deposit, variable annuities, variable life insurance, open and closed-end funds, exchange-traded funds (ETFs), unit investment trusts (UITs), real estate investment trusts (“REITs”), American Depositary Receipts (“ADRs”), foreign ordinary shares, and publicly traded master limited partnerships are also provided. Clients may impose restrictions on investing in certain securities or types of securities. More information regarding any securities and/or services offered is available upon request. Information about our consulting services is contained herein.

### Wrap Fee Programs

As set forth on the cover page, we offer other Advisory services including financial planning and wrap fee programs, which are not covered in this brochure. We offer various wrap fee programs as sponsor and/or portfolio manager and, receive a fee for our advisory services. Clients enrolled in such wrap fee programs generally pay one all-inclusive fee that is not based on transactions in the account. The wrap fee program brochure contains more detailed discussion of the various programs and the related fees, and is available upon request. We generally manage accounts enrolled in wrap fee programs with the same level of care as we manage non-wrap fee program accounts.

### Assets under Management

As of December 31, 2010, we managed Client assets worth \$7,515,937,670 on a discretionary basis, and \$5,277,366,511 on a non-discretionary basis.

### Our Responsibilities as an Investment Adviser

As an Investment Adviser, our firm is held to the legal standards of the Investment Advisers Act of 1940 and state laws where applicable. Such standards include, but are not limited to, fair and equal treatment of Clients, full disclosure of material and potential conflicts of interest, full disclosure of any and all compensation received from Clients or third parties as a result of our relationships with Clients, Client consent prior to engaging in transactions for our own account when dealing with Clients in an Advisory capacity, reasonable basis for believing that investment recommendations are suitable and consistent with Client objectives and goals, including any restrictions placed on us, and reasonable belief that we are acting in the best interest of Clients. Additional information about our fiduciary obligations, including the policies and procedures that we undertake to fulfill those obligations, is available throughout this Brochure, including under Participation or Interest in Client Transactions section of this brochure.

## STIFEL VANTAGE PROGRAM

### About Stifel Vantage Program

The Stifel Vantage Program (“Vantage”) was referred to as the Stifel Commission-Based Advisory Program (“SCAP”) prior to January 2010. Under this program, our Financial Advisors

provide discretionary account management services to Clients. Financial Advisors must meet certain criteria established by our firm including, but not limited to, prior approval from their Branch Manager and Compliance Department. Clients authorize their Financial Advisor(s) to execute transactions in their account on a discretionary basis through the Advisory agreement or some other written document. Financial Advisors make discretionary buy and sell decisions for a Client based upon the Client's investment objectives, risk tolerance, time horizon and investment experience. Clients may discuss transactions with their Financial Advisor(s) at any time and initiate transactions on their own accord. Securities purchased for Clients in this program may include common and preferred stocks, corporate bonds, municipal bonds, treasury and agency issues, options (subject to a separate options agreement signed by Client and approved by Stifel), mutual funds, ETFs, and UITs. Clients may impose restrictions on investing in certain securities or types of securities. The minimum initial investment is \$50,000 and can be waived at our discretion.

#### **Vantage Commission Schedule**

Clients in the Vantage program pay transaction-based charges (commissions) for the services provided by their Financial Advisor. Commissions are charged basis based on our standard commission schedule (subject to negotiation) for brokerage transactions. Our standard commission schedule is provided to Clients upon account opening and is applicable to all transactions executed in their account. Clients may terminate an Advisory relationship upon written notice to Stifel or by submitting Automated Customer Account Transfer (ACAT) paperwork. Upon receipt of written termination notice, Stifel will, at the Client's direction, either liquidate the account or transfer the assets to a custodian of the Client's choice.

### **STIFEL SUMMIT PROGRAM**

#### **About Stifel Summit Program**

The Stifel Summit Program ("Summit") was referred to as the Stifel Consulting Program ("SCP") prior to January 2010. Under this program, our Financial Advisors provide non-discretionary investment advice to sponsors and/or trustees of qualified retirement plan subject to the Employee Retirement Income Security Act (ERISA) with respect to assets that are held at other financial institutions. Services offered may include assisting Clients with the selection of Independent Advisers and/or offering advice as to the appropriateness of individual investments including stocks, bonds, mutual funds, UITs, ETFs, closed-end funds, options, alternative investments, and insurance products. Advice must be in accordance with Client objectives. Clients are responsible for implementing any advice provided by their Financial Advisor(s). The minimum initial investment is \$1,000,000 and can be waived at our discretion.

#### **Summit Fee Schedule**

The minimum annual fee is \$5000. The annual fee charged is a percentage of the total value of investments on which advice is provided, not to exceed 3%. In certain circumstances, the Financial Advisor may negotiate a one-time flat dollar fee arrangement with the Client. The initial annual fee is calculated based on the account's most recent account statement, quarterly or otherwise. The fee is billed quarterly in advance, meaning that one fourth of the annual fee is charged each calendar quarter on the first day of each quarter. The initial quarter is prorated based on the number of calendar days from the date of the agreement to the end of the quarter. Each year thereafter, beginning with the first quarter of the next calendar year (January 1), the annual fee is calculated based on the value of investments in the account on the year-end account statement provided by the Client. In the event that the Client fails to promptly provide account statements, we may calculate the annual fee based on the most current information available. As directed by the Client, fees may be paid either by check and processed through the Client's Stifel brokerage account following an invoice, or by debiting

another non-ERISA Stifel account. A Stifel billing account must be established and maintained by the Client for the sole purpose of processing fees. These fees are separate and independent from any other charges that may be imposed by the independent custodian holding the Client's assets.

When an advisory relationship is terminated, we generally refund Clients the pro-rata amount from the time that the Advisory relationship was terminated to the last day of the quarter. However, we reserve the right to retain the pre-paid fee in the event that the agreement is terminated in the first quarter of the first year of service.

### **STIFEL GUIDEPOST PROGRAM**

#### **About Stifel Guidepost Program**

The Stifel Guidepost Program was referred to as the Stifel Retirement Plan Advisory Program ("SRPAP") prior to January 2010. Under this program, our Financial Advisors provide non-discretionary investment advice to participants of employer-sponsored, participant-directed retirement plans (e.g., 401k plans). In this regard, our Financial Advisors may review the available investment options of employer-sponsored plans and recommend written allocation strategies to the participant Client. After recommending an initial allocation strategy, Financial Advisors may continue to provide advice on a regular basis if current information has been made available. Clients are responsible for implementing any advice provided by their Financial Advisor(s).

#### **Guidepost Fee Schedule**

The minimum annual fee is \$200. The annual fee charged is a percentage of the total value of investments on which advice is provided, not to exceed 3%. The initial annual fee is calculated based on the account's most recent account statement, quarterly or otherwise. The fee is billed in arrears on a quarterly basis. This means that one fourth of the annual fee is charged each calendar quarter on the first day of each quarter. The initial quarter is prorated based on the number of calendar days from the date of the agreement to the end of the quarter. Each year thereafter, beginning with the first quarter of the next calendar year (January 1), the annual fee is calculated based on the value of investments in the account on the year-end account statement provided by the Client. In the event that the Client fails to promptly provide account statements, we may calculate the annual fee based on the most current information available. As directed by the Client, fees may be paid either by check and processed through the Client's Stifel brokerage account following an invoice, or by debiting another non-ERISA Stifel account. A Stifel billing account must be established and maintained by the Client for the sole purpose of processing fees. These fees are separate and independent from other charges that may be imposed by the plan on which the advice is being provided. Since fees are billed in arrears, no refunds are necessary when a Client terminates an account; however, a Client will be billed for any earned but unpaid fees as of the termination date.

### **OTHER ADVISORY SERVICES**

Stifel Financial Advisors may also provide other Advisory services outside of programs listed above, including as a manager and/or sub-advisor to pooled investment vehicles such as private equity funds or fund of funds. In each such case, the applicable Financial Advisors' advice to such each Client's will vary based on the Client's stated investment objectives, goals and limitations. Similarly, fees will vary as negotiated between the parties and set forth in the applicable agreement.

## FEES AND COMPENSATION

### How We Charge For Advisory Services

Please refer to each program description for corresponding fee schedules. Fee schedules may be subject to negotiation depending on a range of factors including, but not limited to, account size and overall ranges of services provided. The following payment options may be available to Clients depending on the type of program selected:

#### Automatic Debit

The Advisory fee or other applicable charges are deducted from available cash or cash equivalents (if any) including money market funds in the Client's Advisory account on the billing date each quarter. Clients grant our firm discretionary authority to rebalance or liquidate securities in order to generate sufficient funds to cover the fee. Account statements reflect the fee payment amount.

#### Letter of Authorization

The Advisory fee or other applicable charges deducted from a separate Stifel account on the billing date each quarter. If the designated account has insufficient funds, we reserve the right to automatically debit the Advisory account to collect the amount due.

#### Client Invoice

Each Client receives an invoice on the billing date each quarter and agrees to remit the fee payment promptly. If the fee payment is not received, we reserve the right to automatically debit the Advisory account to collect the amount due. If the fee payment is debited from a qualified plan and funds are received thereafter, the receivable shall be considered a contribution.

### Brokerage Commissions

Clients in the programs included in this Brochure typically pay brokerage commissions (i) to Stifel in lieu of an annual fee if transaction are executed through Stifel, or (ii) to the unaffiliated custodian holding such Client's assets. Clients should refer to the "Brokerage Practices" section for more details about Stifel's execution services.

### Insurance Commissions

In addition to being a dual registrant, our firm is also licensed as an insurance agency with various states. As such, our Financial Advisors are able to offer various insurance products to Clients as part of our comprehensive investment services to Clients. We receive a portion of any commissions that the issuing insurance company pays with respect to insurance products sold by our Financial Advisors.

### Compensation to Financial Advisors

We remit a percentage of the commissions and fees ("Payout Rate") that we receive from Clients to our Financial Advisors. Payout Rates range from 25% to 50% and are determined by many factors, including the total revenue generated by each Financial Advisor. Under certain circumstances, including mergers and acquisitions, some Financial Advisors may be compensated differently. We reserve the right, in our sole discretion, and without prior notice, to change the method by which Financial Advisors are compensated. As licensed securities salespersons ("Registered Representatives"), Financial Advisors may effect securities transactions for commission compensation. Most Financial Advisors are licensed to provide both brokerage and Advisory services. Financial Advisors may also be licensed as insurance agents and, as such, can effect insurance transactions for separate and customary commission compensation. ***The Payout Rate for our Financial Advisors in connection with Advisory fees may be higher than their Payout Rate for brokerage commissions only. Financial Advisors may, therefore, have an incentive to recommend Advisory accounts over brokerage accounts.*** In addition, the Payout Rate may differ depending on the program in which a Client is enrolled and as a result of the different fee structures

available, Financial Advisors may also have incentive to recommend certain programs over others. Our firm and/or our Financial Advisors may, from time to time, receive incentive awards from issuers of various investment products for the recommending or introducing investment products to Clients. The receipt of this compensation may affect our judgment in recommending investment products to Clients as it incentivizes Financial Advisors to recommend investment products based on the compensation received rather than their Clients' needs. Clients have the option to purchase investment products that we recommend through brokers who are not affiliated with us.

### Mutual Fund Fees and Compensation

Clients should consider all risks and charges prior to investing in any mutual fund. Clients who own mutual funds may incur certain internal expenses charged directly by the mutual fund company. These expenses are separate and in addition to fees charged for Advisory services. Internal expenses are described in each mutual fund prospectus. The prospectus contains important information about the mutual fund being offered and should be reviewed carefully before investing. Mutual funds are sold by prospectus only. Our firm and affiliates may receive payments from mutual fund companies for selling the related mutual fund shares and/or for providing custodial and other services to Clients holding such mutual fund shares. This compensation may include shareholder services or distribution fees addressed below under 12b-1 Compensation. Although paid directly by the mutual fund company, the compensation received is derived from fees that the Client pays to the mutual fund. The amount of compensation received will vary depending on our arrangement with the applicable mutual fund company. Each mutual fund's prospectus generally describes the amount of compensation to be paid for specified services provided to its shareholders. In general, the fund companies will continue to pay us for the duration of the Advisory agreements or, in some circumstances, may extend beyond the termination of the agreements if Clients continue to hold mutual fund shares through brokerage accounts held at Stifel.

#### Networking Compensation

Our firm receives networking fees in consideration for ancillary services provided in connection with mutual fund positions held through Stifel. These fees are generally paid from fund assets, but in some cases may be subsidized in part by affiliates of mutual fund companies (such as the fund manager). The fees are generally calculated by applying the standard networking range of up to \$10 per fund account annually.

#### 12b-1 Compensation

Mutual fund expenses may include 12b-1 distribution fees ("12b-1s") that may be paid from mutual companies to Financial Advisors via the firm as a conduit. This means that Financial Advisors may, from time to time, receive compensation in connection with the placement of Client funds into particular mutual funds. This compensation is in addition to and separate from fees paid by Clients for Advisory services. 12b-1s may be in excess of the amount that would qualify as "no-load." We receive 12b-1 compensation from non-affiliated mutual fund companies which is intended to compensate Stifel for effecting purchases of mutual fund shares or for other services ancillary thereto. The current rate of 12b-1 compensation that we may receive from mutual fund companies generally ranges from 0% to 0.25% annually.

#### Revenue Sharing Compensation

In addition to sales loads, 12b-1s, and processing fees, we may receive other compensation ("Revenue Sharing") from mutual fund distributors. Revenue Sharing with a particular mutual fund

company is generally based on either the amount of sales or the value of assets Stifel Clients hold with the mutual fund company. Because Revenue Sharing is intended to compensate us for ancillary services in connection with effecting sales of mutual fund shares, we require that such payments be made directly from mutual fund distributors; not from mutual fund companies themselves. Revenue Sharing gives us a financial incentive to recommend particular mutual funds to Clients. ***We generally receive Revenue Sharing in connection with mutual funds in Stifel accounts, excluding accounts that are held at other financial institutions. Revenue Sharing is not rebated to Clients and is not paid to Financial Advisors. While not all mutual fund companies participate in Revenue Sharing with us, the compensation amount we receive may be based on either the total sales up to 0.15% of purchases, a portion of the mutual fund assets held by Clients up to 0.25% on an annual basis, or a fixed dollar amount.*** Although we seek to apply a standard payment schedule, it is recognized that not all mutual fund companies approach Revenue Sharing the same way, and some mutual fund companies may decline to pay Revenue Sharing exactly at the levels listed above, or at all, which may present a financial disincentive for us to promote the sale of those mutual funds. This Revenue Sharing information is current as of the date of this brochure and is subject to change at our discretion. Updated and current Revenue Sharing arrangements are available at [www.stifel.com](http://www.stifel.com).

#### **Training and Education Expense Contributions**

Mutual fund companies may subsidize a portion of the cost of training and achievement seminars offered to our Financial Advisors through specialized firm-wide programs and consulting training forums. These seminars are designed to provide education and training to Financial Advisors who regularly solicit Clients to participate in a particular mutual fund platform. The subsidies may vary among mutual fund companies, and no mutual fund company is required to participate in the seminars or to contribute to the costs of the seminars in order to have their funds distributed through our platform. Financial Advisors do not receive a portion of these payments.

#### **Unit Investment Trust (“UIT”) Fees and Compensation**

Clients should consider all risks and charges prior to any UIT transaction. Clients who own UITs may incur certain internal expenses charged directly by the UIT. These expenses are separate and in addition to fees charged for Advisory services. Internal expenses are described in each UIT prospectus. The prospectus contains important information about the UIT being offered and should be reviewed carefully before investing. UITs are sold by prospectus only. Most UIT sponsors make additional payments to firms, including our firm, for selling their UITs. These payments are typically calculated as a percentage of the total volume of sales of the sponsor’s UITs made by the firm in a brokerage capacity during the UIT’s initial offering period. That percentage typically increases as higher sales volume levels are achieved. Detailed descriptions of the terms of these additional payment programs are provided in each UIT’s prospectus. UIT sponsors may also pay Stifel fixed amounts for marketing, promotional or related expenses intended to result in additional sales of a sponsor’s products, or to defray a portion of the costs incurred to facilitate UIT sales, such as the costs of developing or purchasing UIT trading systems. Payment rates and total payment amounts vary from sponsor to sponsor. These payments are made by the UIT sponsor and not out of UIT assets. These amounts are not paid to Financial Advisor or branch offices.

#### **Exchange Traded Fund (“ETF”) Fees and Compensation**

Clients should consider all risks and charges prior to any ETF transaction. Clients who own ETFs may incur certain internal expenses charged directly by the ETF. These expenses are separate and in addition to fees charged for Advisory services. Internal expenses are described in each ETF prospectus. The prospectus contains important information about the ETF being offered and should be reviewed carefully before investing. ETFs are sold by prospectus only.

#### **Non-Cash Compensation**

Financial Advisors may receive non-cash compensation from mutual fund companies, Independent Advisers, Affiliated Advisers, insurance vendors, and sponsors of products that we distribute in the form of occasional gifts, meals, tickets, and/or other forms of entertainment.

#### **PERFORMANCE-BASED FEES**

Stifel does not charge performance-based fees.

#### **TYPES OF CLIENTS**

Please refer to the Advisory Business section for a description of the types of clients to whom we generally provide investment advice. Please refer to the program descriptions for requirements, such as minimum account size, for opening or maintaining an account.

#### **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

In general, our Advisory services combine strategic asset allocation and disciplined rebalancing to grow and/or preserve principal. Our personnel generally design Clients’ portfolios with a long-term perspective, and periodically rebalance the portfolios to manage risk.

In determining the appropriate allocations and/or investments for our Clients, our personnel use information obtained from various sources including financial publications, inspections of corporate activities, company press releases, research material prepared by affiliates and third parties, rating or timing services, regulatory and self-regulatory reports and other public sources. In addition, our personnel also use research provided by our Research Department and/or from third party independent sources relating to a broad range of research and information about the economy, industries, groups of securities and individual companies, statistical information, market data, accounting and tax law interpretations, political developments, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis and other information which may affect the economy or securities prices. The research used may be in the form of written reports, telephone contacts and personal meetings with research analysts, economists, government representatives and corporate and industry spokespersons. Our personnel use a combination of fundamental, technical, quantitative and statistical tools and valuation methodologies. As a result of these different methodologies, technical or quantitative research recommendations may differ from, or be inconsistent with, fundamental opinions for the same security. We also use computer technology in our investment analysis and to create asset allocation recommendations.

#### **Risk of Loss**

Our personnel make a number of assumptions during the Advisory process, including when determining an appropriate asset allocation for each Client and/or recommending investments or outside managers. These assumptions may be wrong and, as a result, a Client’s projected returns may be less than we anticipated.

Our personnel recommend a wide array of investments. Each investment that we recommend will be subject to general market risk, which is the risk that the security’s value will decline because of downturns in the general securities markets. The

following additional risks may also be applicable to our recommendations:

**Investment Company Risk:** A number of Portfolios are heavily invested in mutual funds. In addition, Advisory accounts may invest in other investment companies, including ETFs, UITs and/or closed-end funds. Each fund in a Portfolio may be subject to a variety of risks, depending on its investment strategies and/or securities held in its portfolio. For example, mutual funds that primarily hold a portfolio of small capitalization companies will be subject to small capitalization risks, which may include increased volatility and decreased liquidity (relative to large capitalization companies). Small and medium cap companies face a greater risk of business failure, which could increase a fund's volatility. ETFs shares may trade at a market price that is above or below its net asset value. Different funds may also use investment techniques and financial instruments that may be considered aggressive, including the use of derivative transactions and short selling techniques. The performance of funds (and, therefore, the realized return) will also depend on other factors, including the success of each fund manager's style and investment strategy. Each Client that invests in a fund will also bear a proportionate share of any fees and expenses charged by the fund – higher than expected expenses will reduce a client's realized returns.

**Foreign Securities Risk:** Advisory accounts may invest in foreign securities, directly or through including funds that hold a portfolio of foreign securities. Foreign securities can be more volatile than domestic (U.S.) securities. Securities markets of other countries are generally smaller than U.S. securities markets. Many foreign securities may also be less liquid than U.S. securities, and typically are subject to currency risks. All these factors could affect a fund's price and, therefore, a client's realized return on the investment.

**Fixed Income Securities Risk:** Fixed income securities are subject to credit risk, interest rate risk and liquidity risk. Credit risk is the risk the issuer or guarantor of a debt security will be unable or unwilling to make timely payments of interest or principal or to otherwise honor its obligations. Interest rate risk is the risk of losses due to changes in interest rates. In general, the prices of debt securities rise when interest rates fall, and the prices fall when interest rates rise. Liquidity risk is the risk that a particular security may be difficult to purchase or sell and that an investor may be unable to sell illiquid securities at an advantageous time or price. Investments in government-sponsored entity securities also exhibit these risks, although the degree of such risks may vary significantly among the different government-sponsored entity securities. Some securities issued or guaranteed by U.S. government agencies or instrumentalities are not backed by the full faith and credit of the U.S. and may only be supported by the right of the agency or instrumentality to borrow from the U.S. Treasury.

**Alternative Investments Risk:** Alternative investments, including (but not limited to) investment partnerships, may also present unique risks, such as decreased liquidity and transparency, and increased complexity. Alternative investments typically use derivative instruments (such as, options, futures or index-based instruments). The use of derivative instruments involves multiple risks, including counterparty risk (i.e., the risk that the institution on the other side of their trade will default), as well as the risk that the instrument may not work as intended due to unanticipated developments in market conditions. In addition, to the extent that the alternative investment uses commodities (or commodity-based derivatives) as part of its investment strategy, the investment return may also vary as a result of fluctuations in the demand and supply of the underlying commodities.

## DISCIPLINARY INFORMATION

1. In 2009, 2010 and 2011 Stifel entered into consent agreements with a number of state regulatory authorities regarding the sale of securities

commonly known as "Auction Rate Securities" (ARS). The state regulatory authorities claimed that Stifel failed to reasonably supervise the sales of ARS by failing to provide sufficient information and training to its registered representatives and sales and marketing staff regarding ARS and the mechanics of the auction process applicable to ARS. As part of some or all of the consent agreements, Stifel agreed to pay various levels of fines to the states, to accept the regulator's censure, to cease and desist from violating securities laws and regulations, to retain at Stifel's expense a consultant to review the firm's supervisory and compliance policies and procedures relating to product review of nonconventional investments, and/or repurchase certain auction rate securities from the firm's clients. The states with which Stifel entered into agreements of consent and the amounts of the fines paid to the respective states are:

STATE	DATE RESOLVED	FINE PAID
VIRGINIA	09/18/09	\$ 17,500.00
MISSOURI	01/22/10	\$ 250,000.00
WASHINGTON	04/26/10	\$ 1,512.29
VERMONT	04/22/10	\$ 1,116.04
SOUTH DAKOTA	04/19/10	\$ 1,050.00
IOWA	04/19/10	\$ 2,172.71
CALIFORNIA	05/05/10	\$ 11,220.45
ALABAMA	05/13/10	\$ 1,050.00
LOUISIANA	05/25/10	\$ 1,116.04
NEBRASKA	05/10/10	\$ 1,248.13
TENNESSEE	06/16/10	\$ 3,889.80
UTAH	06/01/10	\$ 1,116.04
WEST VIRGINIA	06/28/10	\$ 1,050.00
DELAWARE	07/08/10	\$ 1,182.08
OKLAHOMA	07/14/10	\$ 1,050.00
COLORADO	08/24/10	\$ 24,720.67
KANSAS	08/19/10	\$ 13,597.95
RHODE ISLAND	08/10/10	\$ 1,050.00
US VIRGIN ISLANDS	09/14/10	\$ 1,050.00
CONNECTICUT	09/23/10	\$ 8,512.73
MAINE	09/24/10	\$ 1,116.04
MICHIGAN	09/29/10	\$ 35,788.02
ARKANSAS	10/19/10	\$ 1,314.17
NEW JERSEY	10/29/10	\$ 15,381.10
ALASKA	10/27/10	\$ 1,446.25
WISCONSIN	12/08/10	\$ 18,286.93
SOUTH CAROLINA	10/04/10	\$ 1,446.25
OREGON	02/17/11	\$ 2,502.92
MINNESOTA	01/31/11	\$ 5,805.01
NEVADA	02/03/11	\$ 17,164.21
OHIO	04/14/11	\$ 15,645.25
MARYLAND	05/13/11	\$ 16,663.56

2. On October 27, 2010, Stifel entered into an agreement of acceptance, waiver and consent with FINRA resolving FINRA's claim that Stifel failed to buy or sell corporate bonds at a price that was fair, taking into account all relevant circumstances, that



the firm transmitted reportable order events to the Order Audit Trail System (OATS) that were rejected by OATS for repairable context or syntax errors that went uncorrected by the firm; that the firm incorrectly reported principal trade transactions as “agent” or “riskless principal” trades; and that the firm failed to report correctly the first leg of riskless principal transactions as “principal.” While not admitting or admitting the allegations, the firm agreed to a regulatory censure and to pay a \$32,500 fine.

3. On September 23, 2010, Stifel entered into an agreement of acceptance, waiver and consent with FINRA resolving FINRA’s claim that, prior to its acquisition by Stifel, Ryan Beck & Co., Inc. had failed to establish an effective supervisory system and written supervisory procedures reasonably designed to ensure that discounts were correctly applied on eligible unit investment trust (UIT) purchases. FINRA alleged that Ryan Beck failed to identify and appropriately apply sales charge discounts and misstated to certain clients that discounts and breakpoint advantages had been properly applied. While not admitting or denying the allegations, the firm agreed to an undertaking by which the firm would submit to FINRA a proposed plan of how it will identify and compensate customers who qualified for, but did not receive, the applicable UIT sales charges discount. The firm will determine the excess sales charges paid by customers and calculate monies owed, plus interest, and provide FINRA with a schedule of same and a program of restitution.

4. On March 10, 2010, Stifel agreed to pay a \$133,000 fine to the State of Missouri and disgorgement of customer commissions in the amount of \$78,617 arising out of the State’s allegations that firm failed to reasonably supervise a Missouri-registered agent with regard to transactions in certain securities accounts of three Missouri residents.

5. On April 6, 2009, Stifel entered into an agreement of acceptance, waiver and consent with FINRA resolving FINRA’s claim that the firm had failed to report to NASDAQ Market Center (NMC) last sale reports of transactions in designated securities and failed to report to NMC the second leg of “riskless: principal transactions. While not admitting or denying the allegations, the firm agreed to pay a fine of \$5,000.

6. On September 18, 2007, Stifel entered into an agreement of acceptance, waiver and consent with FINRA resolving FINRA’s claim that the firm failed to make available a report on the covered orders in National Market Securities (NMS) that it received for execution from any person. While not admitting or denying the allegations, the firm agreed to a regulatory censure and to pay a fine of \$7,500.

7. On September 12, 2007, Stifel entered into an agreement of acceptance, waiver and consent with FINRA resolving FINRA’s claim that the firm failed to report information about the purchase and sale transactions effected in municipal securities to the Real-Time Transaction Reporting System (RTRS) in a manner prescribed by MSRB Rule G-14. While not admitting or denying the allegations, the firm agreed to pay a fine of \$5,000.

8. On August 21, 2007, Stifel entered into an agreement of acceptance, waiver and consent with FINRA resolving FINRA’s claim that the firm had failed to immediately display a limited number of customer limit orders in NASDAQ securities in its public quotation, when such order was equal to or would have improved the firm’s bid or offer and the national best bid or offer for such security, and the size of such order represented more than a de minimis change in relation to the size associated with the firm’s bid or offer in each such security. While not admitting or denying the allegations, the firm agreed to a regulatory censure and to pay a fine of \$10,000.

9. On June 14, 2007, Stifel entered into an agreement of acceptance, waiver and consent with NASD resolving NASD’s claim that Stifel failed to establish, maintain or enforce a supervisory system and written procedures reasonably designed to prevent and detect late trading. While

not admitting or denying the allegations, the firm agreed to a regulatory censure and to pay a \$125,000 fine.

10. On March 7, 2007, Stifel entered into an agreement of acceptance, waiver and consent with FINRA resolving FINRA’s claim that the firm, acting in its capacity as an underwriter of municipal securities, failed to file, or cause to be filed, the required MSRB Rule G-36 forms with MSRB in a timely manner; and that the firm failed to establish and maintain a supervisory system reasonably designed to achieve compliance with the filing requirements of MSRB G-36. While not admitting or denying the allegations, the firm agreed to a regulatory censure and to pay a fine of \$15,000.

11. On October 26, 2006, Stifel entered into a stipulation and consent to penalty with the New York Stock Exchange (NYSE) resolving NYSE’s claim that the firm had failed to adhere to principles of good business practice by providing customers’ nonpublic personal information to a third party without first entering into a contractual agreement with the third party prohibiting the third party from disclosing or using the information in noncompliance with federal and regulatory rules and regulations; that the firm had failed to preserve and maintain instant messaging communications in the required format for the required retention period; that the firm had failed to establish and maintain appropriate procedures for supervision, control and review of email communications; that the firm had failed to apply for NYSE approval of affiliated entities that engaged in securities or kindred business that were under common control by firm’s parent entity; and that the firm had failed to obtain NYSE approval for one branch manager. The firm agreed to a regulatory censure and to pay a fine of \$100,000.

12. On September 2, 2005, Stifel entered into an agreement of acceptance, waiver and consent with NASD resolving NASD’s claim that the firm acting in its capacity as an underwriter of municipal securities, failed to file, or cause to be filed, the required MSRB Rule G-36 forms with MSRB in a timely manner. While not admitting or denying the allegations, the firm agreed to a regulatory censure and to pay a fine of \$5,000.

13. On January 28, 2005, the firm entered into an agreement of acceptance, waiver and consent with NASD resolving NASD’s claim that from January through March, 2002, the firm failed to immediately display a limited number of customer limit orders in NASDAQ securities in its public quotation, when such order was equal to or would have improved the firm’s bid or offer and the national best bid or offer for such security, and the size of such order represented more than a de minimis change in relation to the size associated with the firm’s bid or offer in each such security; and that the firm transmitted a limited number of orders to the OATS system that contained improperly formatted, inaccurate or incomplete data or, on some occasions, the correct order receipt time. While not admitting or denying the allegations, the firm agreed to a regulatory censure and to pay a fine of \$20,000.

14. On June 13, 2003, Stifel entered into a stipulation and consent to penalty with NYSE resolving NYSE’s claim that the firm had failed to establish and maintain appropriate procedures for supervision and control, including follow-up and review with respect to the activities of the firm’s qualifying member on the trading floor of the Exchange; the timely filing of accurate Form U-5AS and Form RE-3S with the NYSE; the failure to prevent one or more employees with inactive registrations from performing duties and functions that required registrations and failing to withhold compensation from such persons during the periods when their registrations were inactive; the failure to

approve and review certain employee-related accounts held outside the firm; the failure to obtain NYSE approval for various officers and directors to be allied members; and the failure to submit to the firm's clearing agent accurate account type indicators for certain transactions; the failure to receive all commissions of the firm's floor broker; the failure of the firm to properly accrue commissions received from its floor broker; and the failure to preserve certain required books and records. The firm agreed to a regulatory censure and to pay a fine of \$50,000.

15. On September 10, 2002, Stifel entered into an agreement of acceptance, waiver and consent with NASD resolving NASD's claim that during the period October 2 - 30, 2000, the firm failed to display immediately 55 customer limit orders in NASDAQ SECs in its public quotation when such order was at a price that would have improved the firm's bid offer in each such SEC; or when the order was priced equal to the firm's bid/offer and the national best bid/offer for each such SEC and the size of the order represented more than a de minimis change in relation to the size associated with the firm's bid or offer in each such security. While not admitting or denying the allegations, the firm agreed to a regulatory censure and to pay a \$10,000 fine.

16. On or about May 16, 2002, Stifel agreed to the payment of \$12,250 each to two individuals who had complained to the Indiana Securities Division regarding the alleged failure of the firm to reasonably supervise its agents, engage in honest and ethical business transactions, and make suitable trades and recommendations.

17. On February 13, 2002, Stifel entered into an agreement of acceptance, waiver and consent with NASD resolving NASD's claims that the firm's supervisory system did not provide for supervision reasonably designed to comply with regulatory requirements. The firm agreed to revise its supervisory procedures with respect to NASD's concerns and to pay fines of \$10,000 for backing away and \$5,000 for supervisory procedure violation.

18. On August 22, 2001, Stifel entered into an agreement of acceptance, waiver and consent with NASD resolving NASD's claim that during a routine NASD examination, inconsistencies in reporting non-mandatory FIPS securities were discovered due to a clerical error for a very limited period. The firm agreed to pay a \$125,000 fine.

19. On March 20, 2001, Stifel entered into an agreement of acceptance, waiver and consent with NASD resolving NASD's claim that the firm failed to supervise two registered representatives in connection with the sale of Class B mutual fund shares. The firm agreed to a regulatory censure, a total fine of \$41,000, as well as an undertaking of offers to 44 customers identified as Class B share purchases from the registered representatives.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

As set forth above, our firm is dual registered as an Investment Adviser As set forth above, our firm is dual registered as an Investment Adviser and a broker-dealer, and is also a licensed insurance agency with various states. We have a number of affiliates that are registered as investment advisers or broker dealers (or both). In addition, to being registered representatives of Stifel, some of our management persons may be registered representatives of these affiliated broker dealers. In addition, some of our management persons may be licensed to practice law in various states. These individuals do not provide legal services to Advisory Clients. The following affiliates may be involved, directly or indirectly, in the Advisory services provided to Clients in the Programs covered in this brochure:

**Stifel Trust Company, National Association (NA)** – Our affiliate, Stifel Trust Company, N.A., provides personal trust services (including serving

as trustee or co-trustee, investment manager, or custodian) for individuals and organizations. From time to time, as trustee or managing agent, Stifel Trust may open an Advisory account with Stifel Nicolaus. In such cases, the fees charged by our affiliate are structured in a manner that is consistent with applicable fiduciary principles.

**Stifel Nicolaus Insurance Agency, Incorporated** – As set forth above, our firm is licensed as an insurance agency in a number of states and, as such, is able to sell insurance products to clients directly. However, in a few states, insurance products are sold through our affiliate, Stifel Nicolaus Insurance Agency, Incorporated. In such cases, the affiliate, and not our firm, will receive customary commission paid by the insurance companies issuing Client policies. Financial Advisors who sell insurance products in such states typically are licensed as agents of the affiliate, and will receive a portion of the insurance commissions paid.

**Limited Partnerships** – As discussed in the Executive Summary, our firm and/or affiliates may act as general partner to various investment partnerships in which Advisory Clients may be invested. Clients that invest in any such partnership are required to hold their limited partnership interests in their brokerage accounts. As such, these Clients are not charged Advisory fees with respect to the holdings, but may be charged transaction-specific brokerage commissions. As with other pooled investment vehicles, each such investment partnership charges its own fees and expenses.

**Stifel Bank & Trust** – From time to time, Advisory Clients may also have deposit and other bank accounts with our banking affiliate. Clients who use this affiliate will be responsible for any customary banking fees that are charged with respect to bank deposit accounts.

**TW Small Cap Growth Fund** – From time to time, our Portfolio assets may be invested in shares of a mutual fund managed by our affiliate, TW Asset Management LLC. Our Financial Advisors may also recommend this fund to non-discretionary clients, or may purchase shares of the fund in a discretionary Client account. The fund charges its own fees and expenses.

**Stifel/Comerica Bank & Trust Alliance** – As set forth above, this affiliate may serve as trustee to Advisory Clients enrolled in Programs covered by this brochure. Clients who use this affiliate will be responsible for any customary banking fees that are charged with respect to bank deposit accounts.

Each client should note that each relationship set forth above creates a conflict of interest for our firm and/or Financial Advisors. We act as a fiduciary with respect to all Advisory services. As a fiduciary, we take reasonable steps to ensure that all material conflicts are fully disclosed to our Clients. For example, we periodically review our lines of service to identify applicable risks and make appropriate disclosures to Clients in respect of those risks.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

In addition to our general Financial Code of Ethics which is applicable to all Stifel personnel, our Advisory personnel are also subject to our firm's Investment Advisory Code of Ethics. A copy of the Advisory Code of Ethics is available to any Client upon request. Set forth in the Advisory Code of Ethics are

standards reasonably designed to promote honest and ethical conduct, comply with federal securities laws and governmental rules and regulations, maintain privacy of Client information, protect access to nonpublic information, and encourage associates to report any known violations. Such standards include placing Client interests first, avoiding any material or potential conflicts of interest, and ensuring that personal securities transactions are conducted appropriately. Compliance reviews the Code of Ethics annually to ensure adequacy and effectiveness in complying with applicable regulations.

#### **Participation or Interest in Client Transactions**

Advisory transactions are typically executed on an agency basis only. However, from time to time, we may trade with Clients and seek to earn a profit for its own account (“Principal Transactions”). Such transactions are executed at prices and commission rates which we believe are competitive and in accordance with industry practice. We typically do not engage in Principal Transactions with Advisory Clients; however, in limited circumstances, Principal Transactions may occur in Advisory accounts if we have provided written disclosure and have obtained prior written Client consent on a trade-by-trade basis. Principal Transactions are also disclosed as such on trade confirmations sent to Clients after trade execution. Generally, no underwritings may be sold to Advisory Clients if our firm is a member of the underwriting syndicate or selling group, unless the applicable Client has specifically consented to the transaction. Additionally to the extent that agency cross transactions are effected in effected in any Client Advisory account, we will make all necessary disclosures to the affected Clients and obtain prior consent when necessary. Each Client should refer to the applicable Client Agreement for more details about whether any of the transactions listed above are allowed in the enrolled program.

#### **Personal Trading**

Our written supervisory procedures are designed to detect and prevent the misuse of material, non-public information by employees. Our firm and affiliates, directors, officers, stockholders, employees and members of their families may have positions in and, from time to time, buy or sell securities that we recommend to Advisory Clients. Our employees and affiliates may invest in any of our Advisory programs. We prohibit transactions in our proprietary account and the accounts of associated persons in any security that is the subject of a recommendation by our Research Department until the recommendation has been disseminated to Clients and a reasonable time has elapsed following the dissemination. Our directors, officers and employees are prohibited from buying or selling securities for their personal accounts if the decision to do so is substantially derived, in whole or in part, by reason of their employment, unless the information is also available to the investing public or through reasonable inquiry. We maintain and regularly review securities holdings in our firm’s proprietary account(s) and the accounts of persons who may have access to Advisory recommendations. We emphasize the unrestricted right of the Client to decline to implement any advice rendered. Additionally, under NYSE Rules, Financial Advisors affiliated with Stifel Financial Corp. (“SF”) are prohibited from recommending SF securities except on an unsolicited basis.

### **BROKERAGE PRACTICES**

#### **About our Broker-Dealer**

Stifel’s principal business in terms of revenue and personnel is that of a securities broker-dealer. As a broker-dealer, we provide brokerage services by executing securities transactions per Client instructions. Advice provided to Clients is an integral part of services offered by Financial Advisors when providing brokerage services; therefore, Financial Advisors who are acting in a brokerage capacity may help Clients identify investment goals, create strategies that are reasonably designed to meet those goals, and make suitable buy, hold, and sell recommendations based on risk tolerance and financial circumstances. However, investment decisions are not made on behalf of Clients and

fees are not charged for any advice given when providing brokerage services. ***Absent special circumstances, Financial Advisors are not held to fiduciary standards when providing brokerage services.*** Legal obligations to disclose detailed information about the nature and scope of our business, personnel, commissions charged, material or potential conflicts of interests, and other matters, are limited when acting as a broker-dealer.

#### **Our Responsibilities as a Broker-Dealer**

As a broker-dealer, our firm is held to the legal standards of the Securities Act of 1933, the Securities Exchange Act of 1934, FINRA rules, and state laws where applicable. Such standards include fair dealings with Clients, reasonable and fair execution prices in light of prevailing market conditions, reasonable commissions and other charges, and reasonable basis for believing that securities recommendations are suitable.

#### **How We Charge For Brokerage Services**

Brokerage clients pay commission charges on a per transaction basis for securities execution services in their brokerage accounts.

#### **Broker**

Stifel acts as broker, in an agency capacity, when executing securities transactions on behalf of Clients. When executing agency trades, our firm charges commissions on a per transaction basis to the extent that Client transactions are executed through Stifel.

#### **Dealer**

Stifel acts as dealer, in a principal capacity, when executing securities transactions for proprietary accounts. When executing principal transactions, Stifel is operating on the opposite side of Client transactions by using its own inventory to buy securities from or sell securities to Clients. When executing principal transactions, Stifel seeks to earn profits and, therefore, charges mark-ups, mark-downs, or spreads on the prices of securities in addition to regular commissions.

#### **Execution of Transactions**

We evaluate speed and certainty of execution, price and size improvement, and overall execution quality when determining the best way to execute Client orders. Where permissible by applicable law, and after complying with applicable regulatory requirements, orders for most Advisory programs are routed for agency execution in order to comply with Principal Trade restrictions. Where a Client account is managed by an Independent or Affiliated Adviser, it is that Independent or Affiliated Adviser’s sole responsibility to meet best execution obligations for Clients of Advisory accounts. Clients should review each Independent and Affiliated Adviser’s trading and execution practices carefully. We do not analyze or evaluate whether Independent and Affiliated Advisers are meeting best execution obligations on trades executed for Client accounts, even where we recommended the Independent or Affiliated Adviser. We use automated systems to route and execute orders for the purchase and sale of securities for all Advisory accounts held at Stifel, unless directed by Clients to do otherwise. Orders are generally routed to an execution center that is believed to provide the best execution. Certain large orders that require special handling may be routed to a market center for execution via telephone. We regularly monitor existing and potential execution venues and may route orders in exchange-listed or over-the-counter (“OTC”) securities to other venues if it is believed that such routing is consistent with best execution principles. With regard to equity securities, we monitor the performance of competing market centers and route orders to

those that consistently complete transactions timely and at a reasonable cost and that guarantee executions at the national best bid or offer. On a fully disclosed basis, we execute load-waived mutual fund transactions through National Securities Clearing Corporation ("NSCC"). No-load mutual fund transactions are executed through NSCC or TD Waterhouse Institutional Services. ETF transactions are generally executed through the American, Midwest, or New York Stock Exchange. Whenever possible, orders are routed to market centers that offer opportunities for price improvement through automated systems.

#### **Payment for Order Flow**

Payment for order flow is defined as any monetary payment, service, property, or benefit that results from remuneration, compensation or consideration to a broker-dealer from another broker-dealer in return for routing customer orders to that broker-dealer. At this time, our firm has determined not to direct order flow for Advisory accounts to specific destinations in exchange for payment. Orders may be routed to electronic communication networks ("ECNs") or similar enterprises in which our firm may have a minority ownership interest if it is determined to be in the best interest of Clients and consistent with our obligations under applicable law. Due to our firm's ownership interest, indirect compensation may be received from ECNs if orders if Advisory account transactions are directed to such trading networks. Clients do not pay additional fees directly to Stifel for such arrangements, but our firm does receive cash payments from certain market centers in exchange for routing orders.

#### **Aggregation of Trades in Advisory Portfolios**

To the extent that our firm serves as executing broker for the Advisory accounts, trades for the account may be executed on an agency basis and aggregated ("Block Trade") where possible and when advantageous to affected Clients. Block Trading allows us to execute equity trades in a timely, equitable manner. Transaction costs are shared equally at an average price per share and on a pro-rata basis between all accounts included in the Block Trade. We attempt to fill all orders placed on the same day in the same Block Trade. Orders that cannot be filled in the same Block Trade or at the same average price are assigned to accounts in a manner that ensures no bias towards any Client. This practice does not ordinarily affect or otherwise reduce fees, commissions or other costs charged to Clients for these transactions, but may provide price improvement. A partial fill of a Block Trade may be allocated among Client accounts randomly, pro rata, or by some other equitable procedure adopted by the Independent and Affiliated Adviser. In certain cases, Independent and Affiliated Advisers may use computer systems that allocate purchase and sale transactions either on a random or pro rata basis. In any case, Clients may pay higher or lower prices for securities than may otherwise have been obtained. We invest cash in money market funds for future purchases and rebalances portfolios when appropriate.

#### **Research and Other Soft Dollar Benefits**

As set forth above, our Financial Advisors and Clients have access to research published by Stifel's research analysts ("Stifel Research"), as the primary source of research. As a result, subject to certain exceptions, we expect all Financial Advisors and other product areas to incorporate insights and economic perspectives of Stifel Research, where appropriate, into their products and services. ***As a result, Clients should be aware that we may have conflicts of interest in connection with recommendations made based on Stifel Research.*** In addition, our firm and/or affiliates may (i) have long or short positions, (ii) deal as principal or agent, in relevant securities, or (iii) provide Advisory or other services to issuers of relevant securities or to companies connected with issuers covered in research reports issued by Stifel Research. Compensation received by our research analysts' is not based on investment banking revenues; however, their compensation may relate to revenues or profitability of Stifel business groups as a whole, which may include investment banking, sales, and trading services. Financial Advisors also have access to proprietary models covering equities, fixed income,

mutual funds, and municipal securities developed by our various business areas.

We also obtain and use independent third-party research in providing Advisory services. In general, we seek third party research that is in-depth fundamental corporate research to assist in providing Advisory services to Clients. This includes information in the form of written and oral reports, reports accessed by computers or terminals, statistic collations, appraisals and analyses relating to markets, companies, industries, business and economic factors, market trends, portfolio strategy, and trading insight and intelligence. Materials of a general nature that deal with technical factors, the business cycle, and the economy are also regarded as having value. Our firm generally pays for independent third-party research. However, our firm has also entered into arrangements with third party sources, such as Russell Investments, whereby such sources provide certain research services for free, generally in return for recommending their investment products (or investment products of their affiliates) to Clients. **Clients should be aware that our receipt of such research services may present a conflict of interest by creating an incentive for our firm and/or Financial Advisors to recommend the investment products offered by research firms (or by their affiliates).** Our personnel generally do not recommend products based on the value of research services received directly from the research provider or their affiliates. Research services are generally used to benefit all Client accounts, whether or not such research was generated by the applicable Client account. However, not all research services will be used for all Client accounts; the type of research used with respect to any one account will depend on, among other things, the types of investments that are deemed suitable for the account.

#### **Brokerage for Client Referrals**

Our firm may be compensated by Independent Advisers for Client referrals to such Independent Advisers. The compensation that we receive is based on a percentage of the total fees paid by each Client to the Independent Adviser for the period of time each Client remains with the Independent Adviser. Independent Advisers may open brokerage accounts for clients not introduced by Stifel and elect to use our firm for trade execution and/or custodial services. By providing such services, our firm and our Financial Advisors act in a brokerage capacity and may receive brokerage compensation. Our Financial Advisors may have incentive to recommend Affiliated Advisers over Independent Advisers as the receipt of additional revenues may have a positive impact on the firm. Clients should refer to their Financial Advisor's supplement for a discussion of the referral arrangements (if any) applicable to such Financial Advisor.

#### **Directed Brokerage**

Unless agreed upon otherwise, we execute advisory transactions for accounts held at our firm directly. From time to time, some Independent or Affiliated Advisers acting as portfolio manager may require Clients to direct brokerage to an outside broker even in cases where the account is held in-house. By directing brokerage, we may be unable to achieve most favorable execution of Client transactions and this practice may result in higher costs to Clients. Fees for Advisory services are not covered, and if warranted, Clients are responsible for brokerage commissions, mark-ups, mark-downs and/or other costs associated with transactions effected through or with unaffiliated broker-dealers. Additionally, Stifel's Advisory fees do not include, and Clients are solely responsible for custodial services provided by other financial institutions. Clients also are responsible for interest on debit account balances, the entire public offering price including underwriting commissions or

discounts on securities purchased from underwriters or dealers involved in distribution of securities, exchange fees, regulatory fees, transfer taxes, and other fees required by law. Our firm or the executing broker-dealer firm computes the prices at which securities are purchased in principal transactions in the customary manner based on the prevailing inter-dealer market price.

### **Margin**

Clients may choose to employ margin strategies in eligible non-retirement, non-custodial accounts. This use of leverage, or investing with borrowed funds, is generally not recommended or permitted in Advisory programs; however, may be approved on an exception basis when requested specifically by individual Clients, or for use in specialized strategies. Employing margin strategies in Advisory accounts is a more aggressive, higher risk approach to pursuing investment objectives. Clients should carefully consider whether the additional risks are affordable prior to employing margin strategies due to the potential to experience significantly greater losses than if not employing margin strategies. The risks associated with investing, as well as costs, may be increased when employing margin strategies, and depending upon the return achieved, may make investment objectives more difficult to realize. Clients pay interest to us on the outstanding loan balance of their original margin loan. Fees are calculated as a percentage of assets under management; therefore, employing margin strategies to buy securities in Advisory accounts generally increases the amount of, but not the percentage of, fees. This results in additional compensation to our firm, our Financial Advisors, and Independent or Affiliated Advisers. The amount of the margin loan is not deducted from the total value of the investments when determining account value for purposes of calculating the fee. The decision to leverage Advisory accounts is the sole decision of Clients and should only be made if Clients understand the risks associated with employing margin strategies, the impact the use of borrowed funds may have on Advisory accounts, and how investment objectives may be negatively affected. Specifically, Clients may lose more than their original investments. Likewise, a positive or negative performance, net of interest charges and fees, is magnified. Gains or losses are greater than would be the case in accounts that do not employ margin strategies. Clients may not benefit from employing margin strategies if the performance of individual accounts does not exceed interest expenses on the loan plus fees incurred as a result of depositing the proceeds of the loan. Certain eligibility requirements must be met and documentation must be completed prior to using leverage in Advisory accounts. Specifically, Clients are required to execute separate margin agreements.

### **Credit Lines**

Clients may use assets in Advisory accounts to collateralize non-purpose loans ("Credit Line Loans"). Clients may apply for Credit Line Loans from our affiliate, Stifel Bank & Trust ("Stifel Bank") using eligible securities accounts, including eligible Advisory accounts, as collateral. The proceeds of such loans may not be used to trade or carry securities, repay debt that was used to trade or carry securities, or repay debt to any affiliate of Stifel Bank. If Advisory accounts are used to collateralize Credit Line Loans, the accounts are pledged to support any Credit Line Loans extended, margin strategies are automatically discontinued, and Clients are not permitted to withdraw funds unless sufficient amounts of collateral remain to continue supporting the Credit Line Loans (as determined by Stifel Bank in its sole discretion). Clients pay interest to Stifel Bank on Credit Line Loans. Certain eligibility requirements must be met and loan documentation must be completed prior to applying for Credit Line Loans.

### **Defaults**

Credit Line Loans extended by Stifel Bank are demand loans and subject to collateral maintenance requirements. Stifel Bank may demand repayment at any time. If the required collateral value is not maintained, Stifel Bank may require additional collateral, partial or entire repayment of any Credit Line Loans extended, and/or sale of securities to satisfy

collateral maintenance requirements. Clients who employ margin strategies in their accounts may need to deposit additional cash or collateral or repay a partial or entire amount of the funds borrowed if the value of their portfolio declines below the required loan-to-value ratio. Failure to promptly meet requests for additional collateral or repayment, or other circumstances including a rapidly declining market, may cause Stifel Bank to instruct us to liquidate some or all of the collateral supporting any Credit Line Loan in order to meet collateral maintenance requirements. Depending on market circumstances, the prices obtained for the securities may be less than favorable. Any required liquidations may interrupt long-term investment strategies and may result in adverse tax consequences. ***Neither Stifel nor its Financial Advisors provide legal or tax advice. Clients should consult legal counsel and tax advisors before using borrowed funds as collateral for loans. Neither Stifel nor its affiliates act as Investment Adviser with respect to the liquidation of securities held in Advisory accounts to meet margin calls or Credit Line Loan demands and, as creditors, Stifel and its affiliates may have interests that are adverse to Clients. There are substantial risks associated with the use of borrowed funds for investment purposes and the use of securities as collateral for loans. Additional limitations and availability may vary by state. For further information, please see the Stifel Nicolaus Loan Disclosure Statement available upon request.***

## **REVIEW OF ACCOUNTS**

### **Account Review**

Accounts are reviewed by members of our Consulting Services Review Committee upon account opening. Thereafter, Financial Advisors perform account reviews regularly.

### **Portfolio Performance**

Clients receive quarterly analyses of their portfolio performance relative to comparable market indices. Performance information is verified by our Consulting Services Operations staff by reviewing the performance results for consistency among similar sectors and identifying any unusual variations or inaccuracies. Independent and Affiliated Advisers may also provide quarterly performance reports directly to Clients.

### **Market Overview**

Clients receive quarterly analyses of prevailing market conditions for the previous fiscal quarter prepared by our firm or other Adviser.

### **Transaction Statements**

Clients receive monthly statements that identify buys, sells, dividends, interest, deposits, and disbursements in their accounts during the previous month, as well as the overall market value of the portfolio at month's end. A summary of portfolio holdings as of the end of each reported quarter is also listed.

### **Realized Gain/Loss Summary**

Clients receive annual listings of all closed transactions in their accounts during each calendar year, as well as the offsetting cost of each transaction providing realized gains/losses for each closing transaction.

### **Year-end Tax Report**

Clients receive comprehensive 1099 statements by February 15th for the previous tax year. 1099 statements include both reportable and non-reportable information including cost basis for securities that have been sold and additional information to assist with tax preparation.

### **Transaction Confirmations**

Clients may elect to receive trade confirmations immediately upon execution in their accounts or defer confirmations until the end of each quarter. Clients who elect to defer confirmations receive summary reports at the end of each quarter outlining the transactions posted to their accounts during the most recent calendar quarter. The election to receive confirmations immediately or quarterly may be changed at any time upon the Client's written notice. Clients of non-discretionary programs are not eligible to defer confirmations.

### **Mutual Fund Prospectus**

Clients receive a current prospectus for each mutual fund, ETF, and UIT purchased.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

### **Stifel Alliance Program**

The Stifel Alliance Program ("Alliance") was referred to as the Stifel Professional Alliance Program ("SPAP") prior to January 2010. We may directly or indirectly compensate individuals or companies for Client referrals by sharing a portion of the fees that we receive from Clients. We and/or our associated persons may pay for registration costs for Advisory Client referrals. As a result, such solicitors may have incentive to refer Clients to us over other firms. We have policies and procedures that are designed to ensure that proper disclosures are provided to Clients at the time of solicitation and that all Clients sign appropriate disclosure delivery receipts.

### **Other Compensation**

Clients should refer to the Brokerage Practices section above for a discussion of research services that our firm may receive for recommending certain products to our clients.

## **CUSTODY**

Our firm typically maintains physical custody of Client assets and provides all required reports directly to the Client. Our firm has adopted policies and procedures that are designed to mitigate risks involved with being a custodial firm to ensure that each such client's assets are protected. Among other things, Client accounts undergo an annual surprise audit by an independent registered accounting firm, which audit is designed to verify the clients' assets. Each applicable year, the auditor will file a report with the Securities and Exchange Commission attesting to, among other things, our firm's compliance with regulatory requirements.

## **INVESTMENT DISCRETION**

Some programs may require Clients to provide us with a limited power of attorney so that account and/or portfolio management services may be provided on a discretionary basis. Discretion is authorized by Clients by signing the discretionary program's Client Agreement. Discretionary authority is limited to voluntary corporate actions, proxy voting, selection of securities, and the number of shares to buy or sell. Clients may impose reasonable restrictions on our discretionary authority and modify existing restrictions by notifying us in writing. Such modifications are honored after being reviewed and accepted by our personnel.

## **VOTING CLIENT SECURITIES**

Clients who receive account and/or portfolio management services on a discretionary basis may appoint Stifel to vote proxies on their behalf. Clients may change their proxy voting election at any time upon written notice to us. In voting proxies, we have a fiduciary responsibility to make

investment decisions that are in the best interest of Clients and vote Client securities accordingly. As required by applicable regulations, we have adopted policies and procedures to govern the proxy voting process. Our policies provide that, in general, we will vote with management on routine issues, and will vote non-routine issues in a manner calculated to maximize shareholder value. We have retained a third-party proxy voting service to provide independent, objective research and voting recommendations, and to vote proxies on our behalf. In the event of a conflict between our firm's interests and the interests of our Clients, we may decline to vote a proxy if the independent proxy voting service is unable to provide a voting recommendation and vote the securities on our behalf. Our proxy voting policies and procedures are provided to Clients at the time of entry into an Advisory agreement, and are also available upon request.

We do not accept proxy voting authority from clients who receive account and/or portfolio management services on a non-discretionary basis. Such clients generally will receive proxy materials directly from the issuer's transfer agent, and are responsible for voting their own proxies. Our personnel generally do not provide any form of assistance in the proxy voting process.

## **FINANCIAL INFORMATION**

Stifel does not have any adverse financial conditions to disclose under this Item.