

## Form ADV Part 2A – Wrap Fee Brochure

March 31, 2014

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This wrap fee brochure provides information about the qualifications and business practices of Credit Suisse Securities (USA) LLC ("CSSU"). If you have any questions about the contents of this brochure, please contact your CSSU registered investment adviser representative ("Relationship Manager").

The information in this brochure has not been approved or verified by the US Securities and Exchange Commission ("SEC") or by any state securities authority. Additional information about CSSU also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Registration with the SEC does not imply a certain level of skill or training.

This wrap fee brochure contains information about CSSU and material changes since its adoption are described below.

### Material Changes since the March 28, 2013 update:

1. Private Banking USA ("PB USA") is now Private Banking North America ("PB North America").
2. The Wealth Management Solutions ETF has been retired.
3. "PAS+" is now Portfolio Construction.

## I. Services, Fees and Compensation

### CSSU's Advisory Business

CSSU is a broker dealer and investment adviser registered with the SEC. It is 100% owned by Credit Suisse (USA), Inc. which is 100% owned by Credit Suisse Holdings (USA), Inc. Credit Suisse Group AG ("Credit Suisse") is the ultimate parent of Credit Suisse Holdings (USA) Inc.

Credit Suisse is a global financial services company providing its clients with Investment Banking, Private Banking, and Asset Management services. In Investment Banking, Credit Suisse offers financial products and advisory services, including debt and equity underwriting, sales and trading, mergers and acquisitions, investment research, correspondent and prime brokerage services to corporations, governments and institutional investors. Effective November 30, 2012, Credit Suisse combined its Private Banking and Asset Management Divisions to form the Private Banking & Wealth Management Division. The new structure creates one of the world's leading integrated wealth management businesses and one of the first global investment banks that operates in alignment with the new regulatory reality. Credit Suisse provides comprehensive advice and a range of investment products and services tailored to the needs of the high net worth and ultra-high-net-worth individual client segment. In our Asset Management business, Credit Suisse manages portfolios, mutual funds, and alternative investment vehicles for governments, institutions, corporations and private individuals, focusing on liquid, scalable alternative investment products and multi-asset class solutions.

CSSU, through its Private Banking North America ("PB North America") business, offers products and services in its capacity as investment adviser, portfolio manager, or sponsor of wrap fee programs. As of December 31, 2013, CSSU managed \$15,530,132,902 of assets on a discretionary basis and \$4,917,738,235 of assets on a non-discretionary basis.

## Types of Advisory Services Offered by PB North America

PB North America offers investment advisory programs to clients (i) on a discretionary or non-discretionary basis, (ii) from CSSU, its Relationship Managers, or a third-party registered investment adviser, and (iii) pursuant to a wrap fee or unbundled fee arrangement. Descriptions of our wrap fee programs are provided below. A 'wrap fee' is an annual inclusive fee paid by the client to PB North America. It covers investment advice, execution, custody, administrative and account reporting services. PB North America pays third parties for their services in the programs and retains the balance of the wrap fee for its services. For more information about our various non wrap fee programs, including *Family Wealth Management Services, Investment Consulting Solutions, Discretionary Consulting Services, Financial Planning Services, and Sub-Advisory Solutions*, as well as our hedge fund feeder platform, *Credit Suisse HedgeFocus*, please refer to the CSSU Disclosure Brochure, which is available upon request. In each program, clients receive individualized investment advisory services tailored to their particular investment objectives and guidelines. Clients may impose reasonable restrictions on permissible securities, types of investments, or specific securities.

PB North America has entered into an agreement with Pershing LLC ("Pershing"), a registered broker dealer, to provide execution, clearing, settlement, and custody for all of its investment advisory programs. Pershing also provides account reporting services for certain investment advisory programs of PB North America. Pershing executes all purchase and sale orders directed to it by CSSU and your portfolio manager and also performs clearance and settlement services. Generally, Pershing maintains custody of your account assets, credits interest and dividends on account assets and principal on called or matured securities in the account, and provides such other custodial functions customarily performed with respect to securities brokerage accounts. Similarly, PB North America has entered into an agreement with Lockwood Advisors Inc. ("Lockwood"), a registered investment adviser, to provide administrative and account reporting services for the *Preferred Advisors, Global Portfolio Strategies, Managed Portfolio Alternatives, Tactical Global Allocations, and Tactical Portfolio Solutions Programs*.

### Sponsored Wrap Fee Programs:

- **Preferred Advisors and Global Portfolio Strategies Programs:** Clients select an unaffiliated registered investment adviser ("Unaffiliated Adviser") to act as discretionary portfolio manager. Portfolio managers must satisfy PB North America's qualitative and quantitative due diligence criteria to participate in these programs. PB North America monitors the performance of the portfolio managers on a quarterly and as-needed basis to determine if they continue to meet the program's participation criteria.

Under the *Global Portfolio Strategies Program*, PB North America has the ability to execute transactions directed by your portfolio manager either through CSSU's own facilities as a broker-dealer, through Pershing, or through a third-party broker dealer.

Please refer to Section III for a list of the investment strategies available in the *Preferred Advisors* and *Global Portfolio Strategies Programs*.

- **Managed Portfolio Alternatives Program:** PB North America provides certain limited services to clients who have made their own, independent selection of Unaffiliated Advisers to manage their account assets on a discretionary basis. PB North America provides brokerage and administrative services only. It does not have or exercise discretionary authority with respect to such account assets, nor does PBUSA identify, recommend or assist clients in the selection of Unaffiliated Advisers or provide initial or ongoing qualitative assessments of the Unaffiliated Adviser's capabilities or performance.

To participate in the programs described above, you must enter into a tri-party Client Services Agreement ("the tri-party CSA") among you, CSSU, and the Unaffiliated Adviser(s) you select to manage your assets. The tri-party CSA shall describe the roles and responsibilities of each party. You may terminate the tri-party CSA at any time by written notice to CSSU.

### Portfolio Management and Investment Advisory Wrap Fee Programs:

- **Discretionary Managed Portfolios Program:** Your Relationship Manager provides discretionary investment advisory services. The investments selected for client accounts are generally derived from fundamental and technical research provided by CSSU's Research Department. As resources in managing your account, your Relationship Manager may also use the *Guidance Portfolio*

*Series* maintained by the Portfolio Construction Group, or the valuation advisory services of HOLT Custom Solutions ("HOLT") which includes the HOLT US, European, Emerging Markets and/or Global Sustainable Dividend Guidance Portfolios, the HOLT US Large Cap Core Guidance Portfolio, and the HOLT US Small Cap Blue Chip Guidance Portfolio (the "HOLT Guidance Portfolios"). Your Relationship Manager may also rely upon the asset allocation models, across various volatility budgets, created by the Portfolio Construction Group, which combine the various strategies and products offered on the PB North America platform. These models include the Strategic Funds Portfolios, either Domestic or Offshore, which provide model portfolios implemented with mutual funds and exchange traded products and follow the global investment process and views of Credit Suisse and PB Americas, and the Strategic Tilt Portfolios, which provide model portfolios implemented with exchange traded products and follow the views of the PB Americas Asset Allocation and Investment Strategy Group. In addition, your Relationship Manager will consider macro-economic factors as part of an overall buy and hold-for-the-long-term strategy.

Your Relationship Manager may implement strategies, including employing short-term purchases, short sales, margin transactions, and writing and purchasing options, based upon your investment needs, preferences, and volatility budget. In managing your account, if CSSU believes it is appropriate based upon the investment strategy you have selected, (i) your account assets may be allocated to investments that meet a lower risk tolerance than the one applicable to the volatility budget you selected and/or (ii) a portion of your assets may be temporarily allocated to cash. Please refer to Section III for a description of the investment strategies available in the *Discretionary Managed Portfolios Program*.

The guidance portfolios are solely a resource for Relationship Managers. The guidance portfolios provide investment ideas and suggestions for implementing them. Relationship Managers can and do deviate from the guidance portfolios.

Under this program, you also have the option of receiving advisory, brokerage, custodial and other services 'unbundled' and paying transaction-based compensation instead of a wrap fee.

- **Guidance Advisory Portfolios Program:** Your Relationship Manager provides discretionary investment advisory services. Based upon your volatility budget and investment objectives and restrictions, your Relationship Manager will invest account assets in accordance with a proprietary guidance investment strategy offered under the HOLT Guidance Portfolios, the *Guidance Portfolio Series* that is maintained by the Portfolio Construction Group or may rely upon certain model portfolios offered by Portfolio Construction (together the "Portfolio Construction Guidance Portfolios"). The Portfolio Construction Guidance Portfolios include (i) the Strategic Funds Portfolios, either Domestic or Offshore, which provide model portfolios implemented through mutual funds and exchange traded products and follow the global investment process and views of Credit Suisse and Private Banking Americas, and (ii) the Strategic Tilt Portfolios, which provide model portfolios implemented through exchange traded products and follow the views of the PB Americas Asset Allocation and Investment Strategy Group. Please refer to Section III for a description of the Guidance Portfolios available in the *Guidance Advisory Portfolios Program*. Your Relationship Manager may combine one or more Guidance Portfolios to create an overall portfolio allocation that differs from any one allocation offered in the individual Guidance Portfolios. However, your Relationship Manager will generally follow the specific security-level allocations in the individual Guidance Portfolios selected.

CSSU monitors client accounts to ensure adherence with the selected Guidance Portfolios. The assets in your account will generally consist of the same securities as those in the Guidance Portfolio selected. Your account is rebalanced periodically. In certain circumstances, the weightings in your account may differ from the established weighting of the Guidance Portfolio.

In managing your account, if CSSU believes it is appropriate based upon the Guidance Portfolio selected, (i) your account assets may be allocated to investments that meet a lower risk tolerance than the one applicable to the volatility budget you selected and/or (ii) a portion of your assets may be temporarily allocated to cash.

Under this program, you also have the option of receiving advisory, brokerage, custodial and other services 'unbundled' and paying transaction-based compensation instead of a wrap fee.

- **Portfolio Management Services Program:** PB North America provides non-discretionary investment advisory services. The investments recommended to clients are generally derived from fundamental and technical research provided by CSSU's Research Department. Your Relationship Manager may also use the valuation advisory services of HOLT, which includes the *HOLT Guidance Portfolios* or the *Guidance Portfolio Series* maintained by the Portfolio Construction Group as resources when making recommendations to you. Your Relationship Manager may also rely upon the Portfolio Construction Group's Strategic Tilt Portfolios, which provide model portfolios implemented through exchange traded products and follow the views of the PB

Americas Asset Allocation and Investment Strategy Group. In addition, your Relationship Manager will consider macro-economic factors as part of an overall buy and hold-for-the-long-term strategy. If CSSU believes it is appropriate based upon the investment strategy you have selected, your Relationship Manager may recommend (i) that you allocate your account assets to investments that meet a lower risk tolerance than the one applicable to the volatility budget you selected and/or (ii) that you temporarily allocate a portion of your assets to cash.

Under this program, you have the option of receiving advisory, brokerage, custodial and other services 'unbundled' and paying transaction-based compensation instead of a wrap fee.

- **Tactical Global Allocations Program:** PB North America provides discretionary investment advisory services by offering a number of portfolios to clients based upon the research and recommendations of the Credit Suisse Global Investment Committee ("GIC"). The portfolio allocations consist of Exchange Traded Products ("ETPs"), closed-end funds and mutual funds.

Please refer to Section III for description of the investment strategies available in the *Tactical Global Allocations Program*.

CSSU has entered into an agreement with NGAM Advisors, L.P. ("NGAM"), a registered investment adviser, to provide portfolio implementation and coordination services as overlay portfolio manager for *Tactical Global Allocations Program* accounts.

- **Tactical Portfolio Solutions Program:** PB North America provides discretionary investment advisory services by offering portfolios based upon US Equity Research.

NGAM provides portfolio implementation and coordination services as overlay portfolio manager.

- **Discretionary Consulting Services Program:** CSSU, as your investment adviser, shall construct a portfolio and asset allocation based upon your written investment objectives and risk tolerance. CSSU shall implement the portfolio by selecting third-party portfolio managers to manage your assets on a discretionary basis in accordance with specific investment strategies. CSSU shall have discretion to allocate your assets among the portfolio managers and to terminate specific portfolio managers when it deems appropriate.

To participate in the programs described above, you must enter into a Client Services Agreement with CSSU. This said agreement shall describe the roles and responsibilities of each party. For certain programs, as applicable, the selected third-party portfolio managers shall also be a party to the agreement. You may terminate the agreement at any time by written notice to CSSU.

## Fees and Compensation

You will pay a wrap fee based upon the total assets you invest in a program. The maximum wrap fee applicable for each program is as follows:

- **Discretionary Managed Portfolios, Guidance Advisory Portfolios, and Portfolio Management Services Programs:** A fee of up to a maximum of 2.00% per annum.
- **Managed Portfolio Alternatives Program:** A blended fee determined at the inception of the account, up to a maximum of 3% per annum. The fee depends on the fee payable to the Unaffiliated Adviser.
- **Preferred Advisors Program:** A blended fee, up to a maximum of 2.5%.
- **Global Portfolio Strategies Program:** A blended fee, up to a maximum of 3% per annum.
- **Tactical Global Allocations Program:** A blended fee, up to a maximum of 2% per annum, based on the applicable fee schedule.
- **Tactical Portfolio Solutions Program:** A blended fee, up to a maximum of 2% per annum.

The wrap fee may be negotiable depending on such factors as account size, historical factors, and scope of client relationship and is adjusted for capital flows in your account.

The following represents a typical fee schedule for equity portfolios in the **Preferred Advisors, Global Portfolio Strategies, Tactical Global Allocations, and Tactical Portfolio Solutions Programs**:

| Assets Under Management           | Fee   |
|-----------------------------------|-------|
| First \$1,000,000                 | 2.00% |
| Next \$1,000,000 to \$2,999,999   | 1.50% |
| Next \$3,000,000 to \$9,999,999   | 1.25% |
| Next \$10,000,000 to \$24,999,999 | 1.00% |
| Next \$25,000,000 to \$49,999,999 | 0.90% |
| Next \$50,000,000 to \$74,999,999 | 0.87% |
| Next \$75,000,000 to \$99,999,999 | 0.85% |
| Next \$100,000,000                | 0.82% |

The following represents a typical fee schedule for taxable fixed income portfolios in the **Preferred Advisors, Global Portfolio Strategies, Tactical Global Allocations**, and **Tactical Portfolio Solutions Programs**:

| Assets Under Management  | Fee   |
|--------------------------|-------|
| First \$1,000,000        | 1.25% |
| Next \$2,000,000         | 1.00% |
| Next \$2,000,000         | 0.85% |
| Next \$5,000,000         | 0.75% |
| Next \$10,000,000        | 0.70% |
| Above first \$20,000,000 | 0.65% |

Fixed income portfolio managers typically execute transactions through dealers other than Pershing. You pay such executing dealers mark-ups / downs that are built into the net price of the security and are in addition to, and do not reduce, the wrap-fee.

- **Discretionary Consulting Services Program:** Depending upon where transactions are executed and assets are in custody, you will pay an annual inclusive fee or you may pay separate fees for the investment advisory services provided by CSSU and the portfolio management services of the third-party portfolio managers who will manage your assets on a discretionary basis, commissions and other charges in connection with transactions effected through third-party broker dealers other than Pershing, as well as fees for custody provided by third-party custodians, other than Pershing. The fee is negotiable depending on such factors as the type and level of service provided and the types of assets managed. Most client accounts are subject to a minimum annual fee. Some accounts are charged a flat fixed fee and others have varying fees applicable to different asset classes or services provided.

There are certain other fee schedules that are no longer offered to new clients or only offered to certain specific clients depending on their individual circumstances. Additionally, certain clients pay different fees, which may be higher or lower, than the ones referenced above and that are not currently available to all clients. There are also other fee schedules that may apply to certain specific strategies in the programs referenced above.

A different fee schedule may apply to CSSU employee accounts and employee-related accounts (including spouse, parents, parents-in-law, children, siblings and dependents) than the ones referenced above for an account in the *Preferred Advisors, Global Portfolio Solutions, Tactical Global Allocations* and *Tactical Portfolio Solutions Programs*. Such fee is not a blended fee.

To calculate a blended fee, the fee percentage specified in the relevant schedule is applied to each incremental breakpoint corresponding to the amount of assets invested in a program. The highest applicable fee percentage is charged on the assets in the first breakpoint. The fee decreases in increments as it is charged on the balance of the assets invested in the next relevant breakpoints. The aggregate blended fee charged is the product of the fee amounts for the breakpoints applicable to the total amount

you invest in the program. For example, if you invest \$3,500,000 in a Preferred Advisors Program equity portfolio, the first \$999,999 will be charged a fee of 2.00%, the next \$2,000,000 of the total amount invested will be charged a fee of 1.50%, and the remaining \$500,001 will be charged a fee of 1.25%. Subsequent deposits into and withdrawals from the program will proportionately increase or decrease the blended fee.

For all programs, the wrap fee includes the investment advisory services or portfolio management services, as applicable, that CSSU provides, the execution, custodial, administrative, and account reporting services provided by Pershing, SEC and exchange fees associated with account activity, as well as any custodial and maintenance fees related to a retirement account, if applicable. For the *Preferred Advisors*, *Global Portfolio Strategies*, *Discretionary Consulting Services* and *Managed Portfolio Alternatives Programs*, the wrap fee also includes all fees and charges for the unaffiliated portfolio manager's services, CSSU's services as sponsor, and Lockwood's administrative services. For the *Discretionary Managed Portfolios*, *Portfolio Managed Services*, and *Guidance Advisory Portfolios Program*, CSSU will also retain a portion of the wrap fee for the investment advisory services provided by your Relationship Manager. Your Relationship Manager will receive a portion of this fee as described further below.

The wrap fee does not include commissions or other charges incurred in connection with transactions effected through a broker or dealer other than Pershing. The wrap fee also does not include fees, charges or other costs and expenses relating to (i) trading in foreign securities (other than commissions otherwise payable to CSSU), (ii) American Depositary Receipts (ADRs) conversion fees, (iii) collective investment vehicles, such as affiliated and unaffiliated closed-end funds, exchange-traded funds ("ETFs"), index funds, investment trusts and real estate investment trusts, and (iv) for fixed income transactions, mark-ups, mark-downs or spreads on securities purchased from third-party dealers. If applicable, you will be charged said fees, charges and expenses, in addition to the wrap fee. Information about said fees, charges, and expenses is set forth in a prospectus or other offering document for the investment. Wire transfer fees, IRA and Qualified Retirement Plan account termination fees, and certain one-time charges related to Pershing-sponsored retirement services (such as the set-up fees for 401(k) plans) are not included in, and will be charged in addition to, the wrap fee.

The wrap fee is automatically deducted from your account, in advance, based upon the market value of account assets as of the last business day of the preceding quarter. If your account is opened on a day other than the first business day of the quarter, the fee is charged at inception on a pro-rata basis that reflects the number of days remaining in the calendar quarter. Upon termination of the Client Services Agreement, you will be entitled to a pro-rata refund of any pre-paid quarterly fee based upon the number of days remaining in the quarter.

Any increase in the fee will be agreed upon, in writing, between you and CSSU. However, CSSU may provide you with prior written notice in any instance where a wrap fee is decreased.

Your Relationship Manager will generally receive up to 48% of the fee remaining after the manager fee or all other related expenses are deducted. Relationship Managers are paid their share of the fee on a quarterly basis.

Portfolio Managers in the *Preferred Advisors* and *Global Portfolio Strategies Programs* generally receive fifty basis points per annum of the wrap fee charged for investment advisory services. Portfolio managers in the *Managed Portfolio Alternatives Program* generally receive between 25 and 125 basis points per annum of the wrap fee charged for investment advisory services. Compensation to the portfolio managers is paid on a quarterly basis.

The services provided to you under the wrap fee programs described above can be obtained on an unbundled basis and may result in overall lower costs. Commission-based brokerage accounts could be used instead of a fee-based investment advisory account. If a brokerage account was selected as an alternative, CSSU would earn commissions (and their equivalents) for effecting transactions for you instead of the net asset-based fee it retains after payment is made to your unaffiliated portfolio manager, Pershing and Lockwood, as applicable. If your portfolio manager or Relationship Manager, as applicable, placed few transactions for your account, the revenue from your account would be less profitable to CSSU than the amounts it retains from the wrap fee. As a result, CSSU may have a financial incentive to recommend a wrap fee program to you over other programs or services. You are responsible for determining whether these wrap fee programs are appropriate for you. In that regard, you should understand the investment strategy you have selected and how frequently your portfolio manager or Relationship Manager, as applicable, effects and expects to effect transactions in your account. Relative transaction infrequency could have a bearing on whether an annual inclusive asset-based fee account is more appropriate than a commission-based account.

### **Discretionary Managed Portfolios, Guidance Advisory Portfolios and Portfolio Management Services Programs:**

- If you utilize options to implement your strategy, you may choose to pay the wrap fee based on the mandate amount.
- At your request, you may use margin in these programs. Fees are assessed based on the value of your account less the amount of the margin loan. Interest on your margin debt is an expense not included in the wrap fee.

### **Additional Compensation Received by CSSU or Your Relationship Manager**

In addition to the wrap fee or transaction-based compensation you pay in the *Discretionary Managed Portfolios, Portfolio Management Services, Guidance Advisory Portfolios, or Discretionary Consulting Services Programs*, you may be charged:

- i. Mark-ups, mark-downs, or spreads on securities purchased or sold for your account in transactions executed by CSSU, or an affiliate, in a principal capacity. Such mark-ups, mark-downs or spreads are included in the purchase or sale price you pay and are not separately stated on trade confirmations or account statements. However, CSSU will provide you with information about such mark-ups, mark-downs or spreads at the time we request your prior consent to the principal transaction.
- ii. Selling concessions or underwriting commissions on any securities purchased or sold for the Accounts in public offerings where CSSU or an affiliate acts as an underwriter, manager, co-manager or placement agent for the securities. We will notify you of such selling concessions or underwriting commissions at the time we request your prior consent for such transaction.

The additional compensation described above may be paid to and retained by CSSU or one or more of its affiliates and will result in CSSU receiving, directly or indirectly, compensation that is in addition to the wrap fee or transaction-based compensation you pay. This additional compensation may be shared with your Relationship Manager and presents a conflict between your interests, on the one hand, and CSSU's and your Relationship Manager's interests, on the other hand, in that it provides an incentive for CSSU and your Relationship Manager, in exercising discretion or providing recommendations for your account, to choose or recommend those investments that result in higher compensation to CSSU, your Relationship Manager and/or affiliates of CSSU. In these circumstances, it is our duty to determine that an investment made in your account or recommended to you that results in such additional compensation is in your best interest based upon the information you have provided to us.

CSSU may receive compensation from third-party broker-dealers for directing order flow to them in option securities. All such compensation will be retained by CSSU and may be shared with your Relationship Manager. None of this compensation will be credited to you.

### **Exchange Traded Products, Mutual Funds, and Offshore Funds**

You may incur indirect fees and expenses for your investments in exchange traded products ("ETPs"), mutual funds, and offshore funds, including money market funds under the automatic cash sweep program described below. These fees and expenses are initially paid by the fund complex but are passed on to all fund investors owning the same class of shares (e.g. management fees, portfolio transaction execution costs, custody, administrative services and transfer agency fees and other expenses, including distribution fees and shareholder servicing fees). Such fees and expenses will be included in the price of the ETP, mutual fund or offshore fund and are not separately disclosed.

Cash balances in your account awaiting investment or reinvestment may be invested, as and when they become available ('automatic cash sweep'), in the money market fund you select at the time you open an account. Money market funds managed by affiliates of CSSU or by unaffiliated portfolio managers are available for automatic cash sweep. You are prohibited from selecting a CSSU affiliated money market fund for automatic cash sweep if you are a plan as defined in Title I of the Employee Retirement Income Security Act of 1974, as amended, an individual retirement account, or another plan subject to the provisions of Section 4975 of the Internal Revenue Code of 1986, as amended ("ERISA").

Except for ERISA accounts, CSSU may receive additional compensation for investments you make in ETPs, mutual funds or offshore funds, including money market mutual funds, as follows:

- i. CSSU or a Portfolio Manager in the *Preferred Advisors* or *Global Portfolio Strategies Programs* may receive fees when CSSU, the Portfolio Manager or one of our or their affiliates provides investment advisory, distribution, administration,



shareholder servicing, or other services to an ETP or mutual fund. The fees CSSU, the Portfolio Manager or an affiliate receive for those services are based on the total amount of clients' assets invested in the ETP or mutual fund. CSSU, the Portfolio Manager or an affiliate may also receive a management fee from the fund based on the total amount of the clients' assets invested in the fund. This management fee is administered in addition to the wrap fee you pay to CSSU for the program for which the funds are purchased.

- ii. CSSU, in its capacity as a broker dealer, may receive distribution shareholder servicing fees from a mutual fund or its distributor pursuant to Rule 12b-1 under the Investment Company Act of 1940. Rule 12b-1 fees are calculated as a percentage of the value of total client assets invested in the mutual fund. Such fees may be as much as 1.25 percent of the average annual dollar amount invested in a fund's shares. Furthermore, CSSU receives compensation from offshore fund managers when CSSU's clients invest in offshore funds. The amount of compensation received by CSSU may vary depending on the offshore fund.
- iii. CSSU may also receive revenue sharing payments from a mutual fund, its service providers, or Pershing. These payments compensate a broker dealer for its efforts in selling the mutual fund and are based in part on the value of total client assets in the fund.

CSSU will retain the above described compensation and will not credit it back to you or apply it to reduce your wrap fee, transaction-based compensation, or other expenses. Your Relationship Manager may receive a portion of this compensation. Information about distribution and shareholder servicing fees is set forth in each fund's prospectus, which will be provided to you. The availability of these fees creates a conflict between your interests and ours and provides a financial incentive for us and your Relationship Manager to select or recommend investments for your account that maximize this compensation. Mutual funds that do not pay revenue sharing payments are available. You must advise your Relationship Manager if you wish to restrict mutual funds selected or recommended for your account to those funds that do not make revenue sharing payments to CSSU. In addition, you can purchase ETPs or mutual funds through broker dealers that are not affiliated with CSSU.

#### **Alternative Investment Products in the Portfolio Management Services Program**

CSSU may recommend that a portion of your account assets be invested in certain affiliated and/or unaffiliated alternative investment products, including but not limited to, hedge funds, private equity funds, and structured products ("Alternative Investment Products"). Such Alternative Investment Products may be advised, sponsored, structured, administered, or distributed by CSSU or an affiliate ("Proprietary Alternative Investment Products").

CSSU will only recommend a Proprietary Alternative Investment Product to you for potential investment after determining that it appears to meet your investment needs and volatility budget. However, the decision to make an investment in an Alternative Investment Product is still ultimately yours and you will remain responsible for reviewing the offering materials and completing the appropriate subscription documentation or other required material.

You will pay two layers of fees on the assets in your account that are invested in Alternative Investment Products. CSSU shall include the value of the assets invested in Alternative Investment Products in calculating the wrap fee described above. In addition to the wrap fee, you will pay your pro-rata share of the fees and other expenses that are borne by all investors in Alternative Investment Products (e.g. placement fees, structuring fees, management fees, performance fees and various forms of servicing fees, all as described in the offering documents for such product). In its capacity as a broker-dealer, CSSU shall receive placement fees for its efforts in selling such Alternative Investor Products. Your Relationship Manager will also receive a portion of these fees and compensation.

This double layer of fees charged on the same assets impacts the performance of your investment and your potential profits.

When you invest in a Proprietary Alternative Investment Product, in addition to the wrap fee described above, you will pay and CSSU or its affiliate will receive:

- i. Fees and other expenses incurred by you and all investors in Alternative Investment Products, which may include placement fees, structuring fees, management fees, performance fees and various forms of servicing fees, all as described in the offering documents for such product.



ii. Brokerage commissions when CSSU, in its capacity as a broker-dealer, executes transactions for Proprietary Alternative Investment Products.

iii. Profits by selling securities to or buying them from a Proprietary Alternative Investment Product as principal.

Your Relationship Manager will also receive a portion of these fees and compensation.

These additional fees and expenses described above create a potential conflict between your interests and CSSU's interests. CSSU has an economic incentive to recommend a Proprietary Alternative Investment Product, as CSSU and its affiliates will earn more compensation from Proprietary Alternative Investment Products compared to the compensation CSSU would receive in connection with a similar third-party Alternative Investment Product.

## II. Account Requirements and Types of Clients

CSSU provides investment advisory services to high net worth and ultra high net worth individuals, family offices, trusts, estates, pension and profit sharing plans, banks, investment companies, charitable organizations, municipalities, corporations, and other business entities.

The following minimum account sizes are required in order to open an account in any of the investment advisory programs CSSU offers. Specific minimums depend upon the investment strategy you select and exceptions to the stated minimums can be granted.

- Preferred Advisors Program: Between \$100,000 and \$5,000,000
- Global Portfolio Strategies Program: Between \$500,000 and \$1,000,000
- Tactical Global Allocations and Tactical Portfolio Solutions Programs: \$100,000
- The Guidance Portfolio Series and the Strategic Funds (Domestic) Guidance Portfolios in the Discretionary Managed Portfolios Program: \$100,000
- Portfolio Management Services, Guidance Advisory Portfolios as well as all other strategies in the Discretionary Managed Portfolios Program: Between \$250,000 and \$500,000
- Managed Portfolio Alternatives Program: Between \$75,000 and \$250,000
- Discretionary Consulting Services Program: \$25 million

The minimum investment amount may be waived at our discretion. If you withdraw assets from an account that results in the value of the account being less than the required minimum, CSSU may elect to terminate the account. We will not knowingly enter into an investment advisory relationship with a current or prospective client whose investment objectives we deem incompatible with those of our programs or those of the discretionary portfolio manager or whose investment guidelines we deem unduly restrictive.

You are required to enter into a Client Services Agreement with CSSU and the unaffiliated portfolio manager, if applicable, in order to open an account. In addition, you will be required to complete a Client Application which will include information about your investment objectives, risk tolerance, and any reasonable investment restrictions you wish to impose.

## III. Portfolio Manager Selection and Evaluation

In the *Discretionary Managed Portfolios*, *Guidance Advisory Portfolios*, *Tactical Global Allocations*, and *Tactical Portfolio Solutions Programs*, CSSU acts as discretionary portfolio manager of your account(s) and, therefore, receives a larger percentage of the Fee that you pay for your account(s) in these Program than in the *Preferred Advisors*, *Global Portfolio Strategies*, *Managed Portfolio Alternatives* and *Discretionary Consulting Services Programs*, where a portion of the Fee is retained by the third-party discretionary portfolio managers. In addition, for the *Discretionary Managed Portfolios* and *Guidance Advisory Portfolios Programs*, CSSU has delegated discretionary portfolio management of your account to your Relationship Manager who, as a result, will retain a larger percentage of the Fee that you pay for your account in this Program than the Programs referenced above. Therefore, your Relationship Manager has an incentive to recommend that you select the *Discretionary Managed Portfolios*, *Guidance Advisory Portfolios*, *Tactical Global Allocations*, and *Tactical Portfolio Solutions Programs*. All investment strategies offered through the

various programs described below are reviewed and approved by the Product Management Americas Managed Investment Products Committee.

## **Participation of Portfolio Managers in the Preferred Advisors, Global Portfolio Strategies and Discretionary Consulting Services Programs**

### **Participation Criteria**

Portfolio managers in the *Preferred Advisors, Global Portfolio Strategies and Discretionary Consulting Services Programs* are generally selected from a universe of portfolio managers identified by the Manager Selection Team based upon a qualitative and quantitative review. The quantitative review includes an analysis of absolute performance, risk-adjusted performance and performance relative to the investment style of a portfolio manager, and on a continuing basis may include a review of a portfolio manager's (a) rate of return, (b) downside risk and standard deviation of returns, (c) risk-adjusted rate of return, and (d) consistency of returns. The qualitative review generally includes (a) years in business, (b) assets under management, (c) investment philosophy, (d) adherence to investment philosophy, (e) financial, operational and client servicing resources, (f) education and business background, of the individual portfolio manager(s) managing the portfolio and (g) disaster recovery capabilities. No affiliates of CSSU act as portfolio managers in these Programs.

### **On-Going Reviews of Portfolio Managers**

CSSU monitors the portfolio managers on a quarterly and as-needed basis. CSSU may replace existing portfolio managers if it determines that such portfolio managers have not met one or more of the participation criteria referenced above. In deciding whether or not to replace a portfolio manager, CSSU takes all such criteria into consideration; no one criterion is necessarily determinant in the replacement decision. In certain instances, CSSU may first place a portfolio manager under review and monitor its performance to determine whether to later replace that portfolio manager. CSSU emphasizes longer-term overall performance from a qualitative and quantitative viewpoint. Short-term developments are monitored but may not necessarily warrant a replacement decision. Managed Accounts periodically monitors certain strategies in the programs to determine whether the relevant portfolio managers are investing available cash balances. In cases where the portfolio manager chooses not to invest available cash balances, a reason for this decision must be provided. CSSU provides written notification to you when (1) the Manager Selection Team has changed the portfolio manager status to "on hold", "closed" or decided to terminate your portfolio manager's participation in one of the Programs or (2) when there has been a material change to your portfolio manager. Material changes may include changes in the corporate structure of the portfolio manager, the investment strategy of the portfolio, or the members of the portfolio management team.

CSSU obtains performance information regarding portfolio managers from a number of different sources. For the majority of the portfolio managers, on a quarterly basis, CSSU compares the overall composite performance of each portfolio manager with the actual performance of the CSSU client accounts invested in the specific Program to identify any dispersion or errors. Performance of each portfolio is also compared to the performance of an appropriate index, agreed upon by the portfolio manager and CSSU. Individual portfolio managers do not calculate their performance on a uniform and consistent basis and the rate of return performance may not be consistent across portfolio managers in the database. CSSU does not independently verify or guarantee that performance information is accurate or complete. Portfolio manager performance information provided by the portfolio managers may or may not be calculated in compliance with the Global Investment Performance Standards ("GIPS"). The quarterly performance information that CSSU provides to you regarding your account is calculated using industry accepted methodologies. Portfolios are generally valued at least monthly and the monthly returns are geometrically linked for quarterly and annualized results. Performance results are total returns, combining current market values and accrued interest and dividend income.

### **Selection of Portfolio Managers for your Accounts**

Based upon the investment objectives, risk tolerance, and risk / return preferences you indicated in the Client Services Agreement, your Relationship Manager will assist you in selecting portfolio managers and determining the asset allocation and investment style(s) appropriate for your financial situation and needs.

## Selection of PB North America Relationship Managers to Act as Portfolio Managers in the Discretionary Managed Portfolios and Guidance Advisory Portfolios Program

If your Relationship Manager will manage your accounts in accordance with the Guidance Portfolios, as described in Section I under the Guidance Advisory Portfolios Program, he/she must obtain approval from his/her Branch Manager and the Relationship Manager Advisory Programs management team. For all other Relationship Managers intending to participate as a discretionary portfolio manager in the *Discretionary Managed Portfolios Program* but who do not intend to manage accounts in accordance with the Guidance Portfolios but rather intend to manage account assets in accordance with their individual investment strategies, the Relationship Manager's Regional Office Manager, Branch Administrative Manager or Branch Operations Manager must submit a formal recommendation to the Product Management Americas Managed Investment Products Committee. The Committee will base its determination upon, as applicable, that Relationship Manager's track record, past experience managing client portfolios, registration requirements, compliance record, and the proposal of a well-articulated investment strategy that is within the guidelines of the *Discretionary Managed Portfolios Program* policy manual. Certain Relationship Managers that have acted as discretionary portfolio managers in the *Discretionary Managed Portfolios Program* for a significant period of time prior to the implementation of these approval processes have been exempted from these approvals provided that they continue to adhere to the guidelines of the *Discretionary Managed Portfolios Program* policy manual and have no compliance violations.

## Investment Strategies in the Preferred Advisors and Global Portfolio Solutions Programs

For the *Preferred Advisors and Global Portfolio Strategies Programs*, you may select the following investment strategies:

- Global Fixed Income
- International Fixed Income
- Global Equity
- International Equity
- Options Overlay
- U.S. Equity
- U.S. Fixed Income
- Global Balanced

## Investment Strategies in the Tactical Global Allocation Program

You may select the following portfolios:

- The *Fixed Income* (Risk Budget 1) portfolio seeks to provide capital preservation and steady income.
- The *Income* portfolio (Risk Budget 2) seeks to provide capital preservation and conservative returns.
- The *Moderate* (Risk Budget 3) portfolio seeks to preserve capital and offer appreciation.
- The *Capital Gains* (Risk Budget 3) portfolio seeks to provide long-term growth and appreciation.
- The *Growth* (Risk Budget 4) portfolio seeks to generate long-term growth through a more aggressive approach towards appreciation.
- The *International* portfolio seeks to generate long-term growth through a tactical approach towards appreciation through investments outside of the US.
- Under a *Premium* portfolio, the allocation of investments in equities, fixed income investments and cash is fully customized to the client's needs and preferences.

There is a Taxable and Tax-Exempt portfolio available for each of the portfolios listed above, except for the Premium Portfolio. Offshore versions of the above portfolios are also available for clients who are not citizens of and do not have a legal address in the US, Canada, or Ireland. The investment objectives of the offshore portfolios are substantially similar to their onshore counterparts; the main difference being that the offshore portfolios have the ability to include fixed income ETFs that trade in US dollars on the London Stock Exchange, thus making taxation on income/distributions potentially more favorable.

## Investment Strategies in the Discretionary Managed Portfolios and Guidance Advisory Portfolios Programs

CSSU offers the following investment strategies managed by select Relationship Manager teams:

- The *High Income Growth Strategy's* objective is to provide investors with a high and rising level of income along with some capital appreciation. The strategy invests in a broad array of potential income-producing asset classes, including Master Limited Partnerships, dividend-paying common stocks, Real Estate Investment Trusts, convertible securities, preferred securities, and closed end funds. The strategy invests primarily but not exclusively in U.S. securities.
- The *MB Strategic Dividend and Income Portfolio Strategy's* objective is to achieve long-term capital appreciation by investing in companies whose dividend is near or in excess of the 10 year Treasury in order to take advantage of the 15% capital gains tax rate on dividends. The strategy seeks to invest primarily in common shares that provide an average dividend income or income generating capabilities (such as master limited partnerships or preferred stock) and includes both domestic and international securities.
- The *MB Value and Growth Portfolio Strategy* is designed to identify companies that are currently out of favor, have strong fundamentals, high barriers to entry in their respective businesses and are dominant leaders in their business sector. The manager seeks to limit risk through diversification and early realization of losses. The portfolio is generally comprised of 60% value and 40% growth securities.
- The *MLP Advantage Strategy's* objective is to realize tax efficient capital appreciation primarily through the purchase and sale of publicly traded master limited partnerships and other high yielding equity securities.
- The *MLP Income and Appreciation Strategy's* objective is to realize capital appreciation primarily through the purchase and sale of publicly traded master limited partnerships ("MLPs") and other high yielding equity securities. The strategy is long only and seeks to generate returns through capital appreciation, MLP distributions and dividends. Each account will hold approximately 90% of the assets in MLPs with cash and other high-yielding securities comprising the balance.
- The *Navillus All-Cap Strategy's* objective is to invest in company stocks that the portfolio managers believe have superior earnings and revenue growth that will outperform the market over the long-term by analyzing the economic conditions and secular trends that provide exploitable investment opportunities across the entire market cap spectrum.
- The *Small Mid-Cap and Special Situations Portfolio Strategy* seeks to produce above-market returns by investing in small and midcap company stocks which the portfolio managers believe are undervalued and hold the assets until the market values them correctly.
- The *Tax-Efficient Growth Strategy* focuses on investing in growth securities with high volatility by tracking approximately 10 core indices. The strategy is designed to maximize potential performance given defined risk constraints. The turnover is minimized in order to maximize tax-efficiency. The strategy utilizes quantitative modeling as well as a tactical overlay. Accounts are composed of a mix of 10 core equity sectors.
- The *Tax-Efficient Balanced Strategy* focuses on investing in growth and income securities with moderate volatility. The Strategy tracks approximately 17 core indices consisting of historic volatility and high growth potential within the volatility constraints. The turnover is minimized in order to maximize tax-efficiency. The Strategy utilizes quantitative modeling as well as a tactical overlay. Accounts are composed of a mix of 17 core global equity and fixed income sectors. The Strategy typically holds a 40% fixed income/60% equity allocation.
- The *Yield Enhancement Strategy* is designed to generate a synthetic dividend through the sale and purchase of S&P 500 index options. Clients provide collateral for the options in the form of a 'dormant asset' such as a municipal bond portfolio or a concentrated stock position.

There may be other investment strategies managed by select Relationship Managers that are available to clients.

Your Relationship Manager can also manage your account in accordance with the following model portfolios that we offer:

- The *Strategic Fund Portfolios (Offshore and Domestic)* (the "Strategic Fund Portfolios") provide investors with access to model portfolios developed by the Portfolio Construction group within PB North America that follow the global investment process and views of CSSU and PB North America. The Strategic Fund Portfolios will be aligned with the global asset

allocation framework and the views of the Global Investment Committee and Private Banking Americas Asset Allocation and Investment Strategy group. They are broadly diversified across sub-asset classes and consist of ETFs and institutional, advisory, and/or other no-load share classes of offshore mutual funds that do not exhibit hedge fund characteristics. There are model portfolios available for each of the five volatility budgets.

- The *Strategic Tilts Portfolios* (the “Tilts”) provide investors with access to model portfolios developed by the Portfolio Construction Group that are based on the views of the PB Americas Asset Allocation and Investment Strategy group. They are implemented with exchange traded products and are intended to provide exposure to sub-asset classes that the PB Americas Asset Allocation and Investment Strategy group expects to outperform the broad market.

In addition, your Relationship Manager can utilize the following guidance portfolios as a resource when managing client assets. Although your Relationship Manager may use the below guidance portfolios to assist him/her in managing your assets, your account holdings and performance returns may differ from the guidance portfolios allocation, even significantly.

- The *HOLT Global Sustainable Dividend Guidance Portfolio* (the “Global Portfolio”) and the *HOLT U.S. Sustainable Dividend Guidance Portfolio* (the “U.S. Portfolio”) each provide Relationship Managers with a portfolio to use as a reference in managing client accounts. By using the HOLT Valuation framework to select stocks and construct the portfolio, with an emphasis either on global or U.S. equity. The U.S. Portfolio seeks to deliver higher dividend yield than the S&P 500 while the Global Portfolio uses a 50/50 blend of the S&P 500 and the S&P ADR Index as a benchmark. Each is designed to achieve its performance goals primarily through stock selection, with some allowance for sector allocation, while controlling for size risk, style risk, and turnover. Each portfolio’s construction process includes both a systematic process, which generates a prospective portfolio, and a fundamental review, which is designed to ensure the systematic rankings fully reflect known corporate performance, market sentiment, and company valuation issues and that the portfolio follows sound portfolio construction principles. CSSU may substitute or deviate from these recommendations in light of your investment needs, preferences or restrictions.
- The *HOLT US Large Cap Core Guidance Portfolio* (the “LCC Portfolio”) seeks to outperform the S&P 500 by using the HOLT Valuation framework to select stocks and construct the LCC Portfolio. This Portfolio is designed to achieve its performance goals primarily through stock selection, with some allowance for sector allocation, while controlling for size risk, style risk, and turnover. The LCC Portfolio construction process includes both a systematic process, which generates a prospective portfolio, and a fundamental review, which is designed to ensure the systematic rankings fully reflect known corporate performance, market sentiment, and company valuation issues and that this portfolio follows sound portfolio construction principles. CSSU may substitute or deviate from these recommendations in light of your investment needs, preferences or restrictions. CSSU may substitute or deviate from these recommendations in light of your investment needs, preferences or restrictions.
- The *HOLT US Small Cap Blue Chip Guidance Portfolio* (the “Model Portfolio”) seeks (i) to outperform the Russell 2000 on a risk adjusted basis while (ii) delivering higher dividend yield than the Russell 2000. This Model Portfolio relies upon the HOLT Valuation framework to select stocks and construct the Portfolio. This portfolio is designed to achieve its performance goals primarily through stock selection, with some allowance for sector allocation, while controlling for size risk, style risk, and turnover. The Model Portfolio construction process includes both a systematic process, which generates a prospective portfolio, and a fundamental review, which is designed to ensure the systematic rankings fully reflect known corporate performance, market sentiment, and company valuation issues and that this portfolio follows sound portfolio construction principles. CSSU may substitute or deviate from these recommendations in light of your investment needs, preferences or restrictions.
- The *HOLT Emerging Markets Sustainable Dividend Guidance Portfolio* (the “Emerging Markets Portfolio”) provides Relationship Managers with a portfolio to use as a reference in managing client accounts. By using the HOLT Valuation framework to select stocks and construct the portfolio, with an emphasis on Emerging Markets domiciled equity and select Emerging Markets ETFs. The Emerging Markets Portfolio seeks to deliver higher dividend yield, more capital appreciation potential and lower volatility than the MSCI Emerging Markets Index. The Emerging Markets Portfolio is designed to achieve its performance goals primarily through stock selection, with some allowance for sector allocation, while controlling for size risk, style risk, and turnover. The portfolio’s construction process includes both a systematic process,

which generates a prospective portfolio, and a fundamental review, which is designed to ensure the systematic rankings fully reflect known corporate performance, market sentiment, and company valuation issues and that the portfolio follows sound portfolio construction principles. CSSU may substitute or deviate from these recommendations in light of your investment needs, preferences or restrictions.

- The *HOLT European Sustainable Dividend Guidance Portfolio* (the “European Portfolio”) provides Relationship Managers with a portfolio to use as a reference in managing client accounts. By using the HOLT Valuation framework to select stocks and construct the portfolio with an emphasis on European domiciled equity. The European Portfolio seeks to deliver higher dividend yield, more capital appreciation potential and lower volatility than the Stoxx Europe 600. The European Portfolio is designed to achieve its performance goals primarily through stock selection, with some allowance for sector allocation, while controlling for size risk, style risk, and turnover. The portfolio’s construction process includes both a systematic process, which generates a prospective portfolio, and a fundamental review, which is designed to ensure the systematic rankings fully reflect known corporate performance, market sentiment, and company valuation issues and that the portfolio follows sound portfolio construction principles. CSSU may substitute or deviate from these recommendations in light of your investment needs, preferences or restrictions.
- The *Guidance Portfolio Series* provides Relationship Managers with a set of reference portfolios ranging across styles and asset class. These portfolios are grounded in securities research and reflect the market and thematic views of the Private Banking Americas Asset Allocation and Investment Strategy Group. Each series includes a portfolio option of either individual companies or exchange-traded funds. As a common foundation, these portfolios will be constructed with a bottom-up bias towards long term fundamentals, sensitivity to the volatility impact of each investment decision on the overall portfolio, and a top down overlay reflecting our current views. In addition to leveraging research groups across the firm, certain quantitative tools including Andromeda, our asset allocation modeling system, will be integrated into the portfolio construction process. The Guidance Portfolio Series contains a number of different investment styles and asset classes, including US Core Equities, Developed Markets (ex-US), Emerging Markets Equities, and Fixed Income. Each style will be assigned a benchmark as an anchor for its portfolio profile. Each will also carry a set of guidelines for security selection including growth, valuation and momentum factors. Finally, each portfolio will be evaluated for exposure to investment themes identified by the Private Banking Americas Asset Allocation and Investment Strategy Group as strategic (i.e. global restructuring, emerging consumers, infrastructure, etc) and adjustments will be made as appropriate. CSSU may substitute or deviate from these recommendations in light of your investment needs, preferences or restrictions.

PB North America collaborates with the respective Global Investment Strategy teams to determine the most appropriate investment vehicles and ensure allocations are in line with global recommendations.

## **Methods of Analysis and Review of the Tactical Global Allocations and Tactical Portfolio Solutions Programs**

For the *Tactical Global Allocations Program*, CSSU’s investment selection and on-going monitoring process includes analyzing exchange traded products, closed-end funds, and mutual funds by reviewing the applicable prospectus for liquidity, volatility, costs and tracking error. This can include regional, country and sector exposures as well as how the portfolio is invested. Short-term developments are monitored, as needed. CSSU also conducts diligence on the ETPs included in the *Tactical Portfolio Solutions Program*. Managed Accounts reviews client accounts periodically to determine whether available cash balances are invested on a timely basis.

## **LIMITED REVIEW OF UNAFFILIATED ADVISERS IN THE MANAGED PORTFOLIO ALTERNATIVES PROGRAM**

Generally, at the request of certain clients or a Relationship Manager, CSSU will contact an Unaffiliated Adviser to determine whether said Unaffiliated Adviser has the operational and technological capabilities to participate in the *Managed Portfolio Alternatives Program*. Prior to participating in the *Managed Portfolio Alternatives Program*, CSSU shall confirm that (A) the Unaffiliated Adviser is registered with the SEC as an investment adviser under the Investment Advisers Act of 1940, (B) no disclosed action, suit or proceeding is pending before or by any court, governmental, quasi-governmental or administrative agency or body, domestic or foreign, now pending, or, to the knowledge of the Unaffiliated Adviser, threatened against or affecting Unaffiliated Adviser which



might (i) materially and adversely change the Unaffiliated Adviser's business, (ii) materially and adversely affect Unaffiliated Adviser's properties or assets; or (iii) materially and adversely affect Unaffiliated Adviser's ability to manage client assets and that Unaffiliated Adviser's provision of services in the Client Services Agreement, and (C) its participation in *Managed Portfolio Alternatives Program* does not constitute a material breach or violation of or default under (i) any agreement by which Unaffiliated Adviser is bound, or (ii) any order, statute, rule or regulation of any court, government agency or self-regulatory organization, including without limitation any state's blue sky laws, applicable to the Unaffiliated Adviser, its affiliates, and any of their respective property or assets. For purposes of this provision, a breach, violation, or default is material if it would result in any adverse change in the Unaffiliated Adviser's condition, financial or otherwise, that would have a material adverse effect on the Unaffiliated Adviser's power, authority or ability to perform its obligations under the Client Services Agreement.

The information used to screen each Unaffiliated Adviser is generally publicly available from filings made by each Unaffiliated Adviser and is not independently verified by CSSU. If a client's selected Unaffiliated Adviser passes these screens, the Unaffiliated Adviser may participate in the *Managed Portfolio Alternatives Program*. At that point, CSSU will negotiate (if not already negotiated) the portion of the fee the Unaffiliated Adviser will accept, and the Unaffiliated Adviser will be paid from the annual inclusive fee paid by each client to CSSU. The total fee paid by the client will not typically be reduced if an Unaffiliated Adviser agrees to a lower fee to provide services to clients in the *Managed Portfolio Alternatives Program*. For this reason, CSSU has an incentive to negotiate the lowest fees it can from each Unaffiliated Adviser and, by doing so, increase the portion of the fee it can retain.

As noted above, each client is responsible for selecting his/her own Unaffiliated Adviser and ensuring that the selected Unaffiliated Adviser will meet the client's goals, objectives and risk tolerance. This client responsibility arises at the selection process and continues throughout the relationship and it is therefore necessary for each client to engage in a detailed analysis of each prospective Unaffiliated Adviser and, once selected, to monitor his/her own account to ensure that the Unaffiliated Adviser continues to provide appropriate investment advisory services. Neither CSSU nor any of its Relationship Managers assumes this responsibility in the *Managed Portfolio Alternatives Program*.

## Material Risks

For the strategies listed above, equities, ETPs, options, and fixed income securities are the primary investments. Always read the prospectus or other offering documents for a full description of risks associated with the particular investment. Some of the material risks are as follows:

- **Equities:** The price may rise or fall, sometimes rapidly or unpredictably, because of changes in a company's financial condition. These price movements may result from economic changes or macro factors such as the economic performance of a particular country, interest rate movements, and international developments. Sector or industry developments as well as changes in government regulations may affect equity prices.
- **Style-Specific Risk:** Different types of stocks tend to shift in and out of favor depending on market and economic conditions. To the extent a portfolio emphasizes a value or growth style of investing, a portfolio runs the risk that undervalued companies' valuations will never improve or that growth companies may be more volatile than other types of investments, respectively.
- **Common-Stock Risk:** Stocks may decline significantly in price over short or extended periods of time. Price changes may occur in the market as a whole, or they may occur in only a particular country, company, industry, or sector of the market. In addition, the types of stocks in which a particular fund invests, such as value stocks, growth stocks, large-capitalization stocks, mid-capitalization stocks, small-capitalization stocks and/or micro-capitalization stocks, may underperform the market as a whole. In addition, growth stocks can be more volatile than other types of stocks. Value stocks can continue to be undervalued by the market for long periods of time. Additionally, dividends paid on common stocks can vary significantly over the short-term and long-term. Dividends on common stocks are not fixed, but are declared at the discretion of an issuer's board of directors. There is no guarantee that the issuers of common stocks in which a portfolio invests will declare dividends in the future, or that if declared they will remain at current levels or increase over time.
- **Mid-Cap/Small-Cap Stock Risk:** Small-cap companies may lack the management expertise, financial resources, product diversification, and competitive strengths of larger companies. In addition, the frequency and volume of their trading may be less than is typical of larger companies, making them subject to wider price fluctuations. In some cases, there could be



difficulties in selling the stocks of small-cap companies at the desired time and price. Mid-cap companies may have limited product lines, markets or financial resources, and they may be dependent on a limited management group. Stocks of small-cap and mid-cap companies may be subject to more abrupt or erratic market movements than those of large, more established companies or the market averages in general.

- **Preferred Securities Risk:** The majority of preferred securities are issued by financial institutions. In addition to the large sector concentration, during times of economic downturns and credit stress, financial institutions can be very negatively impacted. Preferred securities typically have very long maturities and at times may trade like fixed income which can be negatively impacted by movements in the interest rate. Changes in regulations could affect the pricing of preferred/hybrid securities. Recent regulatory sensitivity of hybrid securities has come from decisions around treatment of these securities when considering Tier I capital of financial institutions. Given their place in the capital structure, a large portion of the preferred securities market is rated below investment grade (despite their senior debt still being rated investment grade in many cases). Preferred Securities do experience defaults from time to time and the recovery rate for hybrid paper of bankrupt financial institutions can be lower than other corporations.
- **Short Sales Risk:** When a portfolio sells a stock short, it sells borrowed securities in anticipation that the borrowed securities will underperform the market, thereby enabling the portfolio to replace the borrowed securities at a lower price. Short sales expose the portfolio to the risk that it will be required to buy the security sold short (also known as “covering” the short position) at a time when the security has appreciated in value, thus resulting in a loss to the portfolio. Short selling is considered “leverage” and may magnify gains or losses for the portfolio. Clients with portfolios that may hold long and short positions should be aware that the value of the stocks held “long” could decline, or could decline at the same time that the value of the stocks held short could increase, resulting in greater losses. The portfolio’s investment adviser may not be able to close out short positions at an advantageous time or at a favorable price. Unlike stocks held long, the potential of loss on stocks sold short is unlimited.
- **General International/Global Risks:**
  - *Correlation Risk:* The U.S. and non-U.S. equity markets often rise and fall at different times or by different amounts due to economic or other developments particular to a given country or region. This phenomenon would tend to lower the overall price volatility of a portfolio that included both U.S. and non-U.S. stocks. Sometimes, however, global trends will cause the U.S. and non-U.S. markets to move in the same direction, reducing or eliminating the risk reduction benefit of international investing.
  - *International Investing Risk:* Investing in securities or issuers in markets other than the United States involves risks not typically associated with U.S. investing, such as currency risk, risks of trading in foreign securities markets, and political and economic risks.
  - *Currency Risk:* Because the foreign securities in which the portfolios invest, with the exception of depositary receipts, generally trade in currencies other than the U.S. dollar, changes in currency exchange rates will affect the portfolio’s net asset value, the value of dividends and interest earned, and gains and losses realized on the sale of securities. A strong U.S. dollar relative to these other currencies will adversely affect the value of a portfolio. Depositary receipts are also subject to currency risk.
  - *Foreign Exchange:* Because foreign currency trading may be conducted by using leverage (which covers only a small percentage of the value of the foreign currency traded), price changes in foreign exchange transactions may result in significant losses, which may under some circumstances substantially exceed the funds held as leverage. Off-exchange or over-the-counter foreign exchange transactions are not traded on a regulated market or investment exchange and therefore have limited regulatory protections. During periods of market volatility, it may be difficult or impossible to liquidate an existing position, to assess the value of open positions, or to determine a fair price or to assess the exposure to risk. Due to these system limitations that are inherent in foreign exchange transactions, a customer that implements said transactions should expect less precise from their Relationship Manager.
  - *Foreign Securities Market Risk:* Securities of many non-U.S. companies or U.S. companies with significant non-U.S. operations may be less liquid and their prices more volatile than securities of comparable U.S. companies. Securities of companies traded in many countries outside the U.S., particularly emerging markets countries, may be subject to further risks due to the inexperience of local investment professionals and financial institutions, the possibility of permanent or temporary termination of trading, and greater spreads between bid and asked prices for securities. In addition, non-U.S. stock

exchanges and investment professionals are subject to less governmental regulation, and commissions may be higher than in the United States. Also, there may be delays in the settlement of non-U.S. stock exchange transactions.

- *Political and Economic Risks:* International investing is subject to the risk of political, social, or economic instability in the country of the issuer of a security, the difficulty of predicting international trade patterns, the possibility of the imposition of exchange controls, expropriation, limits on removal of currency or other assets, and nationalization of assets.

Additionally, a portfolio's income from foreign issuers may be subject to non-U.S. withholding taxes. Non-U.S. companies generally are not subject to uniform accounting, auditing, and financial reporting standards or to other regulatory requirements that apply to U.S. companies; therefore, less information may be available to investors concerning non-U.S. issuers. In addition, some countries restrict to varying degrees foreign investment in their securities markets. These restrictions may limit or preclude investment in certain countries or may increase the cost of investing.

The above risks may be particularly significant in emerging markets countries. To the extent a portfolio invests in depositary receipts, a portfolio will be subject to the same risks as when investing directly in foreign securities.

#### ■ **International/Global Risks Related to Particular Strategies**

- *Emerging Markets Risk:* Investing in emerging markets generally involves exposure to economic structures that are less diverse and mature, and to political systems that are less stable, than those of developed countries. In addition, issuers in emerging markets typically are subject to a greater degree of change in earnings and business prospects than are companies in developed markets.

- *Foreign Government/Sovereign Debt Risk:* Investment in the debt of foreign governments can involve a high degree of risk. The governmental or non-U.S. sovereign issuer that controls the repayment of debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. An issuer's willingness or ability to repay the principal and interest due in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole and the political constraints to which a governmental entity may be subject. Governmental entities also may be dependent on expected disbursements from other foreign governments, multilateral agencies and others abroad to reduce the principal and interest due on their debt.

- **ETPs:** Depending upon which program and investment strategy you have selected, your account may be invested in different types of exchange traded products ("ETPs"), including ETFs and exchange traded notes ("ETNs"). Depending on the investment objective and investment strategy of a particular ETP: (i) the investment adviser may not achieve the ETP's investment objective or be able to cause the ETP's performance to match that of the ETP's underlying index or other benchmark on either a daily or aggregate basis, (ii) ETPs may be offered at a discount of the value of the underlying holdings, (iii) although an ETP's shares are listed on a national securities exchange, there can be no assurance that an active trading market for the ETP's shares will develop or be maintained, (iv) ETPs that are non-diversified may invest in the securities of a limited number of issuers or concentrated in a particular market, country, industry, sector or asset class and may be more susceptible to adverse economic, market, political or regulatory occurrences, and (v) the risk that changes in an issuer's management performance, financial condition and the supply and demand for the issuer's products or services may adversely affect the value of the securities held by an ETP.

In addition, the value of commodity-linked ETPs may be affected by changes in overall market movements, commodity index volatility as well as changes in interest rates or sectors affecting a particular industry or commodity, such as weather, embargoes, tariffs and international economic, political and regulatory developments. A commodity-linked ETP may compete with other financial investments, including traditional debt and equity securities issued by companies in the commodity's particular industry and other securities backed by or linked to the particular commodity, direct investments in the commodity and investment vehicles similar to an ETP. Market and financial conditions, and other conditions beyond the ETP portfolio manager's control may make it more attractive to invest in other financial vehicles or to invest in such commodity directly, which could limit the market for the ETP shares and reduce the liquidity of the ETP shares. If the commodity ETP is physically backed, such as with gold or silver, there is a risk that some or all of the ETP's supply of the stored commodity could be lost, damaged or stolen. Access to the stored commodity could also be restricted by natural events (such as an earthquake) or human actions (such as a terrorist attack). Any of these events may adversely affect the operations of the ETP and, consequently, an investment in its shares. The ETP may not have adequate sources of recovery if its physical commodity is lost, damaged, stolen

or destroyed and recovery may be limited, even in the event of fraud, to the market value of the commodity at the time the fraud is discovered.

ETNs are senior, unsecured, unsubordinated debt securities issued by an underwriting bank. Similar to other debt securities, ETNs have a maturity date and are backed only by the credit of the issuer. When an investor buys an ETN, the underwriting bank promises to pay the amount reflected in the index, minus fees upon maturity. Thus an ETN has an additional risk compared to an ETF: upon any reduction of credit ratings, or if the underwriting bank goes bankrupt, the value of the ETN is adversely eroded and an investor can lose all or most of its investment.

- **Options:** You can lose the entire principal you invested as well as the premium you paid. Options can expire out of the money and be worthless. You can be forced to deliver shares at expiration. Options leverage can work against you as much as it can work for you. Terms, conditions and policies of the specific option contract, options exchanges or options brokers can change at anytime. For further information regarding investing in options and the associated risks, please refer to the Options Clearing Corporation's disclosure document at: <http://www.cboe.com/LearnCenter/pdf/characteristicsandrisks.pdf>.
- **Fixed Income:** The issuer of the fixed income security may be, or become, unable to make coupon and / or principal payments. Fixed income investments typically decline as interest rates rise. Inflation erodes the real value of interest payments. Some fixed income investments are callable forcing early redemption.
- **Master Limited Partnerships:** Master Limited Partnerships ("MLPs") are designed not to be subject to corporate income taxes. Instead, unitholders of an MLP are personally responsible for paying taxes on their individual portions of the MLP's income, gains, losses, and deductions. CSSU does not provide tax or legal advice. Please consult your legal and tax advisers to understand the tax implications of investing in MLPs.
- **Hedge Funds:** Typically, single manager hedge funds are exempt from registration as investment companies with the SEC and do not offer the same investor protections as traditional investments. Single manager hedge funds often use speculative investment and trading strategies. Their structure may raise complex tax issues and they frequently place restrictions on an investor's ability to withdraw funds or resell their investment. Hedge fund investors typically incur higher fees and expenses than other types of investments.
- **Liquidity:** Certain types of investment products held in your account may have restricted liquidity. For example, where a significant number of PBUSA clients are invested in an ETF, a small cap stock, or in international or emerging market fixed income securities, the liquidity of that investment product may be impacted where a large number of clients seek to sell at the same time. Additionally, an investment in a Feeder Fund through the Hedge Fund Feeder Platform provides limited liquidity since there are substantial restrictions on the ability of an investor to withdraw capital or transfer its interest.

Investing in securities involves risk of loss that you should be prepared to bear. Frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

## Performance-Based Fees and Side-by-Side Management

CSSU does not charge performance-based fees for its investment advisory services, but unaffiliated investment managers may do so. Performance-based fees are fees based on a share of capital gains on or capital appreciation of the assets of a client. An investment adviser charging performance fees to some accounts faces a variety of conflicts because the investment adviser can potentially receive greater fees from its accounts having a performance-based compensation structure than from those accounts it charges a fee unrelated to performance (e.g., an asset-based fee). As a result, the investment adviser may have an incentive to direct the best investment ideas to, or to allocate or sequence trades in favor of, the account that pays a performance fee.

## Voting Client Securities

For the *Discretionary Managed Portfolios*, *Portfolio Management Services*, *Guidance Advisory Portfolios*, *Tactical Global Allocations*, *Tactical Portfolio Solutions*, and *Managed Portfolio Alternatives Programs*, except as may be required by applicable law, CSSU will not take any action or render any advice with respect to the voting of proxies solicited by or with respect to the issuers of securities in which your account assets may be invested.

For the *Preferred Advisors, Global Portfolio Strategies Managed Portfolio Alternatives, and Discretionary Consulting Services Programs*, pursuant to the trading authorization you have granted in the Client Services Agreement, your portfolio manager may vote proxies on your behalf. Your portfolio manager will vote proxies relating to the securities and other property held in your account in accordance with proxy voting guidelines that your portfolio manager may establish. You may revoke your portfolio manager's proxy voting authority by forwarding written notification to your Relationship Manager. Such revocation will neither impair nor limit any other authority given to your portfolio manager. As sponsor of these Programs, CSSU will not take any action or render any advice with respect to the voting of proxies solicited by or with respect to the issuers of securities in which your account assets may be invested. CSSU will not review proxies voted by your portfolio manager. CSSU's policies prevent it from requesting that your portfolio manager vote a proxy in a certain manner. A copy of your portfolio manager's proxy voting policy is available upon request.

## IV. Client Information Provided to Portfolio Managers

For your account(s) in the *Preferred Advisors, Global Portfolio Strategies Managed Portfolio Alternatives, and Discretionary Consulting Services Programs*, your portfolio manager(s) will receive a copy of the Client Services Agreement and Client Application referenced in Section II above.

## V. Client Contact with Portfolio Managers

For your account(s) in the *Preferred Advisors, Global Portfolio Strategies Managed Portfolio Alternatives, and Discretionary Consulting Services Programs*, you may communicate directly with your selected portfolio manager(s) although you are encouraged to facilitate such communications through your Relationship Manager.

## VI. Additional Information

### Brokerage Practices

CSSU has entered into an exclusive agreement with Pershing to provide execution, custodial, administrative and account reporting services to client accounts. CSSU may effect transactions through Pershing or itself, consistent with our obligation to obtain best execution. CSSU, your portfolio manager or sub-adviser may effect transactions through other brokers or dealers when it believes, in its sole discretion, that said brokers or dealers may provide better execution than would be the case if Pershing executed the transaction. For the *Preferred Advisors, Global Portfolio Strategies, Tactical Global Allocations, Discretionary Managed Portfolios, Guidance Advisory Portfolios, Portfolio Management Services Program, Tactical Portfolio Solutions Program and Managed Portfolio Alternatives Programs*, you may pay brokerage commissions in addition to the inclusive advisory fee for any transactions not effected through Pershing or CSSU.

CSSU may receive compensation from certain third-party broker-dealers or market centers for directing order flow in option and NMS securities. For securities, payment is on a per share basis; for options, payment is on a per contract basis. The market centers that pay for order flow are selected based upon the opportunity they provide for execution of orders at prices better than the National Best Bid or National Best Offer. Absent specific order routing instructions from customers and regardless of whether payment for order flow is received, CSSU transmits customer orders for execution to various exchanges and other market centers based on a number of factors, including: the ability of a market center to execute the orders at or superior to the National Best Bid and National Best Offer, the ability of a market center to provide price improvement opportunities, the speed of execution, the availability of efficient, automated transaction processing, liquidity enhancement opportunities, the speed of displaying better-priced limit orders, trading characteristics of the particular securities and the extent to which different markets may be more suitable for different types of orders or different securities. All such compensation will be retained by CSSU and is not shared with you or your Relationship Manager.

The assets in your account(s) may not be fully invested upon account opening. Rather, assets may be invested over time in accordance with the investment strategy you have selected. If you have selected the Yield Enhancement Strategy as a 'Select Strategy' for your account(s) in the *Discretionary Portfolio Management Services Program*, assets may not be fully invested until the next portfolio rebalancing, which occurs monthly.

CSSU's policies prohibit the allocation of shares of initial public offerings ("IPOs") to clients in accounts for which CSSU provides investment advisory services.

## **Brokerage for Client Referrals**

CSSU does not consider, in selecting or recommending broker-dealers, whether it or any of its affiliates receive client referrals from said broker-dealer or third-party.

## **Directed Brokerage**

You may direct us to utilize brokers and dealers other than those we select to effect transactions for or with your account. In said instances, you will be solely responsible for negotiating the terms and arrangements on which you engage those brokers and dealers and CSSU shall have no responsibility for reviewing those terms and arrangements. CSSU will not seek better execution services or prices from these other brokers and dealers in connection with transactions for your account. CSSU will not be able to 'batch' or 'aggregate' transactions for your account with transactions for our other clients. CSSU will not monitor the performance of or the services provided by those brokers and dealers you designate. Directing brokerage likely will cost you more money. For example, in a directed brokerage account, you may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case because we may not be able to aggregate orders to reduce transaction costs.

## **Trade Aggregation**

If CSSU is purchasing or selling the same securities for several clients at approximately the same time, we may, to the extent permitted by law, combine or 'batch' such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among our clients' differences in prices and commissions or other transaction costs that might have pertained had such orders been placed independently. In these circumstances, the price and associated costs of such transactions will be averaged and allocated among our clients (which may include persons associated with CSSU or clients in which persons associated with CSSU have invested) in proportion to the purchase and sale of orders placed for each client account on any given day. Said aggregation of orders may, on average, slightly reduce the overall costs of the transaction for you.

## **Custody**

Your custodian provides you with monthly statements reflecting positions and trading activity for each month in which such activity occurs in your account. For accounts that Pershing acts as custodian, you may also receive certain customized account statements or performance reports from CSSU relating to your account. CSSU urges you to review your monthly statements from your custodian carefully and compare them to any statements or reports you may receive from us. If there are any discrepancies, your monthly statements from your custodian are determinative. CSSU is deemed to have custody of your account assets because, as applicable, (i) we deduct advisory fees directly from your account or (ii) your assets are custodied with CSSU's affiliate, Credit Suisse AG.

## **Investment Discretion**

When you grant CSSU, your Relationship Manager as agent for CSSU, or a portfolio manager discretionary trading authorization over your account, such authorization will be subject to any special instructions or restrictions you may reasonably impose and will take into account your investment objectives and risk tolerance. Generally, you grant such discretionary trading authorization pursuant to the applicable Client Services Agreement.

## **Disciplinary Information**

On November 16, 2012, CSSU and certain affiliates (collectively, "Credit Suisse") reached a settlement with the U.S. Securities and Exchange Commission ("SEC") that resolves two investigations relating to residential mortgage-backed securities transactions. More specifically, one investigation concerned Credit Suisse's settlement of claims against mortgage originators involving loans that had been included in a number of Credit Suisse securitizations and its alleged failure to disclose this practice to investors. The second investigation concerned Credit Suisse's obligations to demand repurchase by mortgage originators with respect to certain delinquent loans in two 2006 securitizations. CSSU's investment advisory business was not the subject of either investigation. In a settled administrative proceeding, the SEC charged Credit Suisse with engaging in negligent conduct under Sections 17(a)(2) and 17(a)(3)

of the Securities Act of 1933 and charged one CSSU affiliate with violations of Section 15(d) of the Securities Exchange Act of 1934 and Rules 12b-20, 15d-1, and 15d-14(d) thereunder. Credit Suisse neither admitted nor denied the SEC's allegations. As part of the settlement of both investigations, Credit Suisse agreed to pay approximately \$120 million, inclusive of \$65,804,330 in disgorgement, \$39,000,000 in civil monetary penalties, and \$15,200,000 in prejudgment interest.

In 2008, CSSU was part of a global settlement reached with a multistate task force composed of members of the North American Securities Administrators Association Inc. ("NASAA") and the New York Attorney General ("NYAG") regarding the marketing and sale of Auction Rate Securities. As part of the global settlement, CSSU agreed to pay a \$15,000,000 fine to be allocated among the NASAA and NYAG members. Payments have been made as each state or jurisdiction entered a formal settlement with CSSU. For more detailed information on the individual state settlements, please refer to CSSU's Form ADV Part 1.

On August 26, 2008, CSSU was censured by the Securities and Exchange Commission ("SEC") and ordered to pay a fine of \$1,000,000. The order stated that Donaldson, Lufkin & Jenrette Securities Corp., predecessor in interest to CSSU, failed reasonably to supervise one of its former registered representatives, R. Christopher Hanna, with a view to preventing and detecting his violations of the Federal Securities laws during a portion of the twelve-year period that it employed him from November 1989 to May 2001.

On April 28, 2003, the SEC filed a complaint against CSSU in the US District Court for the Southern District of New York (the 'District Court') alleging that (1) from July 1998 through December 2001, CSSU created and fostered an environment with conflicts of interest that, in some circumstances, undermined the independence of equity research analysts and affected the objectivity of the reports they issued, and (2) from 1999 until April 2001, CSSU, through its Technology Private Client Services Group, engaged in improper 'spinning' activities relating to initial public offerings (the 'Complaint'). The Complaint alleged violations of Sections 15(c) and 17(a) of the Securities Exchange Act of 1934 and Rules 15c1-2 and 17a-3 thereunder; Rules 2110, 2210, 3010 and 3110 of the Conduct Rules of the NASD Inc. ("NASD"); and Rules 342, 401, 440, 472, 476 of the New York Stock Exchange, Inc. ("NYSE"). Also on April 28, 2003, it was announced that CSSU, without admitting or denying the allegations in the Complaint, except as to jurisdiction, submitted to the District Court a Consent to the entry of a Final Judgment, and in related actions, submitted an Acceptance, Waiver and Consent to the NASD and a Stipulation and Consent to the NYSE (together, the 'Consents'). On October 31, 2003, the District Court entered a Final Judgment under which CSSU was enjoined from prescribed violations of Sections 15(c) and 17(a) of the Exchange Act and Rules 15c1-2 and 17a-3 thereunder, Rules 2110, 2210, 3010 and 3110 of the Conduct Rules of the NASD and Rules 342, 401, 440, 472, 476 of the NYSE and ordered to pay \$150 million in disgorgement and monetary fines; to pay an additional \$50 million to be used for the procurement of independent research; and to implement structural reforms and provide enhanced disclosure to investors, including a broad range of changes relating to the operations of its equity research and investment banking operations. Concurrently with the Consents, CSSU also entered into a Settlement Agreement and Consent Order with the State of Massachusetts with respect to the same conduct specified in the Complaint.

On January 22, 2002, CSSU, without admitting or denying any alleged violation, entered into coordinated settlements with NASD Regulation, Inc. ("NASDR"), currently the Financial Industry Regulatory Authority ("FINRA") and the Securities and Exchange Commission ("SEC") resolving all outstanding investigations of CSSU into the allocation of shares in initial public offerings ("IPOs"). CSSU's investment advisory business was not the subject of either settlement.

CSSU consented to these settlements without admitting or denying any of the allegations made in the SEC's Complaint or the letter of Acceptance, Waiver and Consent ("AWC") filed with the NASDR. The SEC and NASDR alleged that, between April 1999 and June 2000, certain CSSU employees allocated many shares in IPOs to over 100 customers with whom they had improper profit-sharing arrangements. The NASDR and SEC alleged that certain employees allocated 'hot' IPO shares to certain customers who paid the Firm a portion of the profits (between 33 and 65 percent) that they made when they sold their IPO stock, by paying inflated brokerage commissions on transactions unrelated to the IPO shares. The allegations did not concern any advisory clients of CSSU.

Under the terms of the coordinated settlement:

- CSSU paid a total of \$100 million. This amount included \$30 million in fines and civil penalties divided evenly between the SEC and NASDR, and a total of \$70 million in disgorgement, \$35 million of which was paid to the US Treasury and \$35 million of which was paid to the NASDR, representing the monies obtained as a result of the conduct described by the SEC and NASDR. The SEC determined in this case that it was appropriate and in the public interest to pay funds to the US Treasury rather than to any third parties.

- CSSU has adopted and implemented revised policies and procedures for allocating IPOs in its broker-dealer operations. The SEC and NASD have reviewed these policies and procedures. These include the establishment of an IPO Allocation Review Committee, a process for the pre-qualification of accounts before they are eligible to receive IPO allocations, and enhanced supervisory procedures, which may include the review of commissions paid by certain accounts receiving allocations around the time of the IPO. CSSU also retained an independent consultant to review the implementation of these policies and procedures one year from the date of the settlement.

In the NASDR settlement, CSSU, without admitting or denying any findings, consented to a censure and findings that it violated NASD Rules 2110, 2330, 2710, 3010 and 3110. These Rules (a) require broker-dealers to adhere to just and equitable principles of trade, (b) prohibit broker-dealers from sharing in the profits of client accounts except as specifically provided, (c) require a managing underwriter to file certain information that may have a bearing on the NASDR's review of underwriting arrangements, (d) require members to establish, maintain and enforce a reasonable supervisory system, and (e) require broker-dealers to maintain certain books and records. The NASDR AWC also found violations of Section 17(a) of the Securities Exchange Act of 1934 Act ('Exchange Act') and SEC Rule 17a-3, thereunder, which are incorporated by NASD Rule 3110 and similarly impose certain record keeping requirements on CSSU as a broker-dealer. In the SEC settlement, CSSU, without admitting or denying the allegations of the Complaint, consented to entry by the District Court for the District of Columbia of a final judgment that: (1) permanently enjoined CSSU, directly or indirectly, from violations of NASD Conduct Rules 2110 and 2330 and Section 17(a)(1) of the Exchange Act and SEC Rule 17a-3; and (2) ordered CSSU to comply with certain undertakings.

Neither the SEC nor NASDR made any allegations or findings of fraudulent conduct by CSSU. Further, neither the SEC nor NASDR alleged that any IPO prospectus was rendered false or misleading by CSSU's conduct or that this conduct affected either the offering price of an IPO or the price at which any IPO stock traded in the aftermarket.

## **Other Financial Industry Activities and Affiliations**

CSSU is a registered broker-dealer. Each of our management persons is a registered representative of the firm. CSSU is also registered as a futures commission merchant.

### **Relationships with our Affiliates that are Significant to our Investment Advisory Business:**

Our affiliate, Credit Suisse Asset Management, LLC, a registered investment adviser, acts as sub-adviser under the *Sub-advisory Solutions Program* and manages client assets on a discretionary basis.

If suitable, we may purchase on a discretionary basis or recommend to a client, as applicable, mutual funds, ETPs, or alternative investments to a client where an affiliate acts as an issuer, investment adviser, sponsor, principal underwriter, distributor, administrator, transfer agent, general partner, managing member or provider of other services. Information about related conflicts is provided in Section I above and, as applicable to your accounts in a non-wrap fee program, in CSSU's Disclosure Brochure, which is available upon request. Neither CSSU nor your Relationship Manager will receive any additional compensation in instances where we recommend or purchase for your account, as applicable, mutual funds or ETPs issued by one of our affiliates.

CSSU may solicit suitable clients to apply for loans extended by the New York Branch of Credit Suisse AG, a bank organized under the laws of Switzerland ("CS NYB"). Loans are secured by assets in the client's account at CSSU (the 'Collateral'). Credit Suisse AG is an affiliate of CSSU. CSSU earns a fee for each client it refers to CS NYB to whom a loan is extended, and may receive other compensation for services provided in connection with the loans. These fees are in addition to any investment management fee which CSSU may earn for providing investment advisory services with respect to the Collateral.

## **Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading**

### **Code of Ethics**

CSSU has implemented the Private Banking North America Investment Adviser Code of Ethics ('Code of Ethics'). The Code of Ethics sets forth the standards of ethical conduct to which CSSU and its employees must adhere. Access Persons, as defined by Rule 204A-1 of the Advisers Act, must adhere to certain holdings certification and employee personal trading policies. At the inception of their employment with CSSU, quarterly, and annually thereafter, Access Persons must certify that they have accurately disclosed all of their personal trading accounts. CSSU must receive duplicate copies of all trade confirmations and periodic



statements of all transactions in such personal trading accounts. In order to prevent conflicts of interest as a result of securities transactions that an Access Person may place or recommend for your account, CSSU has implemented 'black-out' periods for personal securities transactions. For one day prior to and one day after the Access Person places a trade or recommends that a trade be placed in your account, the Access Person is generally prohibited from executing a trade in the same security in his or her personal trading account. A copy of the Code of Ethics is available upon request.

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

CSSU introduces certain suitable clients to private investment opportunities offered by our affiliates as well as unaffiliated entities. CSSU generally receives compensation from the private investment partnerships for the introduction. Our affiliates may act as general partner of private investment partnerships in which you invest. Generally, these private investment partnerships operate private pooled investment funds that invest in public and private investment vehicles that may include leveraged buyout funds, exchange funds, venture funds, debt funds, fund of funds, and real estate funds as well as portfolios of marketable securities.

CSSU is engaged in many securities-related activities. It is possible that we will recommend to you the purchase or sale of investment products in which we or an affiliate has a financial interest. This financial interest may create an incentive for CSSU to recommend these products to you. CSSU receives underwriting commissions or discounts, retirement account and other account servicing fees and fees paid by investment companies, mutual funds, hedge funds, exchange traded funds, or other investment vehicles. Additionally, our employees may have long or short positions in investment products we recommend to you. Employees who refer clients to other divisions of Credit Suisse for products or services generally are eligible to receive incentive compensation for the referral, which does not increase the fees or expenses that you pay for the product or service.

CSSU maintains a Restricted List to monitor and restrict sales, trading and research activity with respect to the equity securities of any company placed on the list. The Restricted List is used when CSSU may have, or appear to have, inside information about the status of publicly announced but uncompleted transactions or to comply with SEC rules that limit the type of sales, trading and research activity that CSSU may conduct during the preparation for, and execution of, public offerings. When a company's securities are on the Restricted List, CSSU is generally prohibited from soliciting customer orders or effecting transactions for discretionary customer accounts.

CSSU renders investment advice and other investment management and broker-dealer services to many types of clients with respect to, and it may for its own account hold, purchase, sell or otherwise trade in and deal with, securities which are the same as or similar to those recommended to you. Therefore, CSSU may have potentially conflicting loyalties and responsibilities with regard to its various clients. CSSU maintains procedures that are designed not to disfavor any client account over other accounts in the execution and allocation of transactions. CSSU monitors the personal trading activity of its employees. An Employee Trading Policy is designed to detect and prevent conflicts and violations arising in this area.

CSSU effects transactions as broker or agent for clients and may also act as principal in transactions with advisory clients, but only where CSSU has obtained the advisory client's prior written consent to each such principal transaction.

For the *Discretionary Managed Portfolios*, *Guidance Advisory Portfolios*, and *Portfolio Management Services Program*, CSSU may route orders for execution through its agency algorithmic trading platform, Advanced Execution Services ("AES"), which may in turn route the orders to CSSU's Cross Finder alternative trading system ("ATS"). Cross Finder ATS may match the orders of CSSU's advisory clients with orders of other CSSU clients. PB North America does not have access to AES or Cross Finder ATS and controls have been implemented to prevent PB North America from knowing or anticipating the execution path of an order in advance of an order being routed to AES. The routing and matching processes of AES and Cross Finder ATS are operated on a quantitative and rule-driven basis. We issue trade confirmations, as required under Rule 10b-10 of the Securities Exchange Act of 1934, which disclose compensation that we may receive in the form of underwriting fees, distribution fees, and mark-ups or mark-downs. Except as permitted by a class exemption or an exemptive order, we will not engage in principal transactions for clients subject to Employee Retirement Income Security Act of 1974, as amended ("ERISA").

## **Review of Accounts**

Before an investment advisory account is opened with PB North America, a qualified Regional Office Manager, or his or her designee ("ROM"), reviews your investment objectives, financial circumstances and risk tolerance to determine if the account appears to be

suitable for you. The ROM conducts monthly reviews of performance for select accounts (including investment advisory accounts). PB North America Compliance periodically conducts tactical reviews to assess risks in certain areas of the business which may include managed accounts.

The ROM reviews trading in your account in the *Discretionary Managed Portfolios*, *Guidance Advisory Portfolios*, or *Portfolio Management Services Programs* on a periodic basis. A centralized oversight group conducts a periodic review of the account for adherence to a Program's guidelines, your volatility budget, and any restrictions you imposed.

Under the *Tactical Global Allocations Program*, the Managed Accounts team monitors the performance and dispersion among accounts on an on-going basis.

CSSU does not conduct on-going due diligence or monitoring of the performance of the Unaffiliated Advisers you have selected in the *Managed Portfolio Alternatives Programs*. Investment advisory services are provided solely by the Unaffiliated Advisers without reliance on CSSU for any purpose.

### **Client Reports:**

Pershing provides you with a trade confirmation for each transaction effected for your account, as well as monthly statements reflecting positions and trading activity for each month in which such activity occurs in an account. For the *Preferred Advisors*, *Global Portfolio Strategies*, and *Managed Portfolio Alternatives Programs*, Pershing forwards confirmations to your selected portfolio manager(s) for each transaction effected in your account(s). For your accounts in the *Preferred Advisors*, *Global Portfolio Strategies*, and *Managed Portfolio Alternatives Programs* may elect to suppress the mailing of trade confirmations. In such instances, your portfolio manager(s) will continue to receive trade confirmations.

You receive quarterly and annual performance reports reflecting realized gains and losses, dividends, and interest in an account as well as a comparison of such information against an appropriate index. Your Relationship Manager periodically reviews account performance with you to determine whether such performance is in line with your goals, investment objectives, and risk tolerance.

### **Client Referrals and Other Compensation**

Solicitors introduce potential investment advisory clients to us in exchange for a fee. We enter into written agreements with these solicitors and, as required by Rule 206(4)-3 of the Advisers Act, they must provide to clients, at the time of solicitation: (i) a copy of CSSU's Part 2A Disclosure Brochure as well as the Wrap Fee Brochure, as applicable; and (ii) a written disclosure statement on the solicitor's letterhead which shall: (a) advise the client of the nature of the relationship between us and the solicitor, (b) include a statement that we will compensate the solicitor for its solicitation services, (c) indicate the terms of such compensation arrangement, and (d) indicate whether client will be charged amounts in addition to the investment advisory fee in connection with the solicitation agreement between us and the solicitor.

### **Financial Information**

CSSU has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.