

# Clifford Swan Investment Counselors

177 E. Colorado Blvd., Suite 550  
Pasadena, California 91105

626-792-2228

[www.cliffordswan.com](http://www.cliffordswan.com)

March 20, 2020

This Brochure provides information about the qualifications and business practices of Clifford Swan Investment Counselors. If you have any questions about the contents of this Brochure, please contact us at 626-792-2228 or [info@cliffordswan.com](mailto:info@cliffordswan.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Clifford Swan Investment Counselors is a Registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information you may use to determine to hire or retain an Adviser.

Additional information about Clifford Swan Investment Counselors also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

There have been no material changes since our last annual update of this Brochure.

## **Item 3 -Table of Contents**

Item 1 – Cover Page.....	i
Item 2 – Material Changes.....	ii
Item 3 – Table of Contents.....	ii
Item 4 – Advisory Business .....	1
Item 5 – Fees and Compensation.....	2
Item 6 – Performance-Based Fees and Side-By-Side Management .....	4
Item 7 – Types of Clients.....	4
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	5
Item 9 – Disciplinary Information .....	8
Item 10 – Other Financial Industry Activities and Affiliations .....	9
Item 11 – Code of Ethics .....	9
Item 12 – Brokerage Practices .....	11
Item 13 – Review of Accounts.....	12
Item 14 – Client Referrals and Other Compensation.....	12
Item 15 – Custody.....	13
Item 16 – Investment Discretion.....	13
Item 17 – Voting Client Securities.....	14
Item 18 – Financial Information .....	15

#### **Item 4 – Advisory Business**

Clifford Swan Investment Counselors provides investment supervisory services and manages investment advisory accounts on behalf of clients within the greater context of our clients' wealth management needs. Clifford Swan Investment Counselors and its predecessor firms have been in business since 1915. The firm is wholly owned by its employees.

Clifford Swan provides both investment supervisory services and the management of investment advisory accounts as continuous investment counseling services. Investment advisory agreements for these services continue indefinitely but are subject to cancellation at any time by either party. Typically provided to clients who are in need of advice on an ongoing basis, investment-counseling services include advice on structuring clients' portfolios given their unique objectives (return requirements and risk tolerance) and circumstances (time horizons, liquidity needs, and tax and legal considerations). Our firm keeps a record of our clients' investment holdings, and places transactions for clients' portfolios. Our clients also have the privilege of conferring with us upon any financial subject whenever they feel our judgment would be of assistance, including financial planning services such as retirement cash flow, funding college education, and philanthropy. We also publish an educational newsletter for our clients and other interested parties, with general advice about investing, market comments, and other financial matters.

From time to time, at our discretion, we accept an assignment to be performed on other than a continuous basis. Our services are available on a discrete assignment basis to review investment portfolios and make recommendations thereon as we deem advisable. Our responsibility ends when the results of the review are presented to the client. Although we are available to support and coordinate action by the client on these recommendations, implementation of the appropriate financial strategies is performed by the client and is entirely at the client's discretion.

Clifford Swan also delivers family wealth services, assisting clients with sustaining family legacy through creation, development, and implementation of strategies for family governance, financial education, and philanthropy.

Clifford Swan provides investment counseling and/or administrative services to charitable institutions and individuals for specialized deferred gifts (e.g., charitable remainder trusts, gift annuity funds, and pooled income funds). These administrative services include effecting periodic benefit distributions, tax reporting, management reporting and other ancillary requirements designed to provide a full-service arrangement.

All our advisory services are offered in the context of the client's unique circumstances, and tailored to address target returns, income needs, tax concerns, risk tolerances, etc., as described above. We generally work with our clients to establish broad policy guidelines for investments,

suitable or unsuitable, for their portfolios. Any limitations on discretionary authority are discussed with clients and documented in our client files and/or databases.

Both discretionary and non-discretionary clients can impose restrictions on investing in certain securities or types of securities (e.g., socially responsible investing), or indicate that a particular held security is not to be sold. Some of our clients have limited our discretionary authority on purchases by specifying certain companies or industries in which we may not invest their funds. Other clients have specified a maximum percentage of their total portfolio to be invested in any one company, security type, industry or asset class.

In some cases, it has been the client's expectation that purchases, or sales of securities will be discussed with the client prior to placing the trade, even though Clifford Swan has been granted investment discretion and trading authorization. Wherever practical, trades for these clients will be aggregated with fully discretionary trades to obtain more favorable execution. However, it is possible that trades for these clients will be executed separately from trades for other purely discretionary clients, which could result in the trades being completed at a higher or lower price from other accounts.

#### Assets Under Management as of 12/31/2019

\$2.65 Billion Discretionary Basis

\$604 Million Non-Discretionary Basis

\$3.25 Billion Total Assets Under Management

### **Item 5 – Fees and Compensation**

Investment advisory fees for investment counseling relationships ("Investment Counseling Fees") are generally based upon the market value of assets under management. The schedules shown below apply to new clients. Fees may be negotiated, considering factors including: (1) the amount of capital involved; (2) the amount of time required including frequency and location of meetings; (3) the responsibilities we assume; and (4) other relevant circumstances. After careful consideration of these factors, we are then in a position to quote what we consider to be a fair and reasonable fee; and the prospective client is under no obligation unless and until he or she accepts whatever proposal we make. The minimum Investment Counseling Fee is \$10,000 per annum (which could be modified under extenuating circumstances).

## Investment Counseling Fee Schedules

### For equity and balanced accounts

Managed Assets	Annual Fee Rate
The first \$2mm	1.00%
The next \$3mm (\$2mm - \$5mm)	0.75%
The next \$10mm (\$5mm - \$15mm)	0.50%
The next \$10mm (\$15mm - \$25mm)	0.40%
Assets above \$25mm	0.30%

**For a fixed-income only** relationship, our fee schedule is negotiable, starting at 0.40% on the first \$2.5 million.

**For deferred giving vehicles** that require investment management and administrative services, the following base schedule applies. Additional services, such as work to reconstruct or review historical records will be quoted at an hourly rate, discussed below, based upon the work required.

### Managed Assets – Charitable Trusts, Gift Annuity Investment Pools, and Pooled Income Funds Annual Fee Rate

The first \$5mm	1.00%
The next \$5mm (\$5mm - \$10mm)	0.85%
The next \$10mm (\$10mm - \$20mm)	0.75%
Assets above \$20mm	0.65%

### Special Asset Classes

0.35% on special asset classes within trusts or investment pools

For new clients, fees are charged quarterly, in advance. Existing clients' fee and billing schedules vary from those listed above. Clients elect to have investment management fees deducted directly from their managed accounts or to be billed by Clifford Swan.

All agreements for supervisory and advisory services are subject to cancellation at any time and by either party, with the fees prorated to the date of termination. There are no cancellation charges. In the event the client has prepaid fees, any unearned, prepaid fees will be refunded upon cancellation.

**Discrete Assignment Fee:** This type of fee is charged for specific assignments we may accept from time to time. See Item 4—Advisory Business for a description of these services. The fees are calculated considering the same four (4) factors as in Investment Counseling Fees above. Generally, however, fees are charged at the rate of 1.0% of the amount of assets involved or \$250 per hour.

**Family Wealth Services Fee:** Fees are negotiated on a project basis and charged quarterly in arrears. See Item 4—Advisory Business for a description of these services.

**Other Fees:**

**Transaction & Custody Fees:** Clients will incur brokerage and other transactions costs, which are not paid to Clifford Swan. See Item 12—Brokerage Practices. In addition, custodians charge clients custody fees and transaction fees, which are not paid to Clifford Swan.

**Fund Fees:** Clients owning mutual fund or Exchange-Traded Fund (ETF) shares monitored by our firm pay Clifford Swan an advisory fee, which is in addition to any fees charged by the fund company. All fees paid to Clifford Swan for investment advisory services are separate and distinct from fees and expenses charged by mutual funds and ETFs directly to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund or ETF directly, without the services of Clifford Swan. In that case, the client would not receive the services provided by our firm that are designed, among other things, to assist the client in determining which mutual funds or ETFs are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and the fees charged by Clifford Swan to fully understand the total amount of fees being paid by the client and thereby evaluate the advisory services being provided.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

Clifford Swan does not charge performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

## **Item 7 – Types of Clients**

We provide investment supervisory services and manage investment advisory accounts for individuals, high net worth individuals, charitable institutions, foundations, endowments, private corporate pension and profit-sharing plans, and other corporations and businesses.

In general, our minimum annual fee structure drives a minimum client relationship size of \$1 million in liquid, actively managed assets. See Item 5—Fees and Compensation.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

Clifford Swan structures each client's portfolio based upon the unique objectives and circumstances of the client. While a client can elect to have an all equity portfolio or an all fixed-income portfolio, most of our clients have balanced portfolios, invested in equities and fixed-income securities.

### **Methods of Analysis—Equity Investing**

We believe fundamental research can identify leading companies with increasing internal rates of return on invested capital. Managing diversified portfolios invested in such companies should reward the patient investor with superior inflation-adjusted returns.

We concentrate our research on individual companies with businesses offering the greatest opportunity for real growth in cash flow and consistent earnings that are insulated from the business cycle. We believe astute stock selection can generate real growth in per-share value for our clients. We focus on companies with the following characteristics:

- Superior management
- Strong financial condition
- Inflation-adjusted growth of cash flow, unit sales, earnings and dividends
- Strongly competitive position in a growing industry

Companies with these characteristics are usually large-capitalization companies, although we may invest in mid- or small-capitalization companies, if they meet our criteria. We typically invest in U.S. companies but selectively invest in non-U.S. companies, usually through American Depositary Receipts (ADRs), American Depositary Shares (ADSs) or Global Depositary Receipts (GDRs).

### **Methods of Analysis—Fixed-Income Investing**

Our fixed income research analyzes the underlying structure of the issue and credit quality of the issuer to enhance the stability of the accounts and generate income we manage. Our fixed-income investments include U.S. Treasury securities, municipal bonds, corporate and agency bonds, depending on the income needs and risk tolerances of our clients. We focus on short to intermediate-term fixed-income issues to minimize the potential price volatility associated with long-term bonds. We calculate the risk/return trade-off for alternative duration choices to maximize returns for a given level of risk. Duration is a measure of the sensitivity of the price of a fixed-income investment to a change in interest rates.

## **Outside Investments (not directly managed by Clifford Swan Investment Counselors)**

Where we believe asset classes outside our in-house expertise are appropriate for client portfolios, we purchase mutual funds or exchange traded funds. In these cases, we utilize manager publications as well as third-party research tools to analyze these investments. While not exhaustive, some of the considerations we use to evaluate mutual funds are:

- Upfront placement or sales fees other than traditional commissions
- Deferred sales charges
- Low total expenses
- Little or no 12b-1 fees (in the case of mutual funds)
- Fund inception date at least 5 years
- Performance rank relative to other similar investments

See Item 5 – Fees and Compensation for additional information about the costs of mutual fund and ETF investments.

## **Investment Strategies**

We apply various screens to focus our selection of equity and fixed-income instruments on those most attractive for clients' portfolios. We purchase securities for the long term and apply established disciplines to determine if and when replacements are necessary. In constructing portfolios, we diversify in terms of individual securities and industry weightings.

A stock is a candidate for sale if we perceive deteriorating company or industry fundamentals or the stock is becoming substantially overvalued. We also strive not to let a single stock that has done well create an imbalance in a portfolio. We will work to reduce the size of a position, taking into consideration tax consequences, and reinvest the proceeds in diversified holdings.

We purchase bonds for income and lower price volatility when compared to equities, purchasing only investment grade fixed-income issues. We take advantage of market inefficiencies through a disciplined selection process. Non-Treasury issues purchased for portfolios must provide a sufficient incremental advantage to justify the increased risk.

A bond may be sold when, in our judgment:

- Its yield spread narrows versus alternatives with comparable risk
- The sector's fundamental attractiveness declines
- Downgrade potential is increasing
- A bond with greater appreciation potential is identified

Bonds which are downgraded or have their ratings withdrawn after purchase are not immediately sold but reviewed individually and within the context of the portfolios in which they are held. They are sold if the circumstances warrant such action.



An important part of our role is to assist clients to establish a growth expectation and maintain an appropriate level of investment risk, recognizing that over the long term the expected return will be commensurate with the risk assumed.

We counsel clients to establish an appropriate level of risk given the client's profile and then manage that risk level through asset allocation in the portfolio, and through security selection and diversification. Our rigorous screening of securities is intended to avoid highly volatile equity investments. When setting risk targets, we consider the special circumstances of each client, including the following factors:

- Preservation of principal in real terms—e.g., adjusted for inflation
- Level of current income needed
- Tax considerations
- Legal constraints
- Minimum liquidity requirements
- Acceptable level of volatility
- Time horizon
- Other circumstances

With these considerations in mind, an investment counselor constructs and monitors a portfolio tailored to the needs of each client. As a client's circumstances change over time, we adjust the portfolio to meet the new objectives.

### **Risk of Loss**

Investing in securities involves risk of loss that clients should be prepared to bear. Clients' portfolios' performance could be hurt in certain circumstances and risks:

- Issuer risk. Securities held in clients' portfolios decline in value because of changes in the financial condition of, or events affecting, the issuers of these securities.
- Management risk. Our firm's opinion about the intrinsic worth of a company or security may be incorrect resulting in not making timely purchases or sales of securities.
- Equity risk. Equity securities generally have greater price volatility than fixed-income securities.
- Market risk. Stock prices decline over short or extended periods due to general market conditions.
- Liquidity risk. The inability to sell a security in a timely manner or at desired prices.
- Non-U.S. issuer risk. Foreign investments tend to be more volatile than domestic securities and are subject to risks that are not typically associated with domestic securities. For example, such investments can be adversely affected by changes in currency rates and exchange control regulations, unfavorable political and economic developments and the possibility of seizure or nationalization of companies, or the imposition of withholding taxes on income. Foreign markets tend to be more volatile than the U.S. market due to economic and political instability and regulatory conditions in some countries.
- Interest rate risk. Fixed-income security prices generally decline due to rising interest rates. Fixed-income securities with longer maturities tend to have higher yields and are generally

subject to potentially greater price volatility than obligations with shorter maturities and lower yields.

- Credit risk. A security's price declines due to deterioration in the issuer's financial condition, or the issuer fails to repay interest and/or principal in a timely manner.
- Call risk. During periods of falling interest rates, issuers of callable bonds repay securities with higher interest rates before maturity. This could cause the portfolio to lose potential price appreciation if it reinvests the proceeds at lower interest rates.
- Mortgage and asset-backed securities risk. Early repayment of principal (e.g., prepayment of principal due to the sale of the underlying property, refinancing, or foreclosure) of mortgage-related securities (or other callable securities) exposes the portfolio to a potential loss on any premium to face value paid and to a lower rate of return upon reinvestment of principal. In addition, changes in the rate of prepayment also affect the price and price volatility of a mortgage-related security. Securities issued by certain U.S. government sponsored entities (GSEs), such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), are not issued or guaranteed by the U.S. Treasury. In the event that these GSEs cannot meet their obligations, there can be no assurance that the U.S. government will continue to provide support, and the portfolio's performance could be adversely impacted.
- Municipal bond risk. U.S. state and local governments issuing municipal securities held by the underlying funds rely on taxes and revenues from private projects financed by municipal securities to pay interest and principal on municipal debt. The payment of principal and interest on these obligations is adversely affected by a variety of factors at the state or local level, including poor statewide or local economic results, changing political sentiments, legislation, policy changes or voter-based initiatives, erosion of the tax base or revenues of the state or one or more local governments, natural disasters, or other economic or credit problems.

### **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of our firm or the integrity of our firm's management. Clifford Swan has no events to report. Our firm and its personnel have had no legal or disciplinary events, no criminal or civil actions, and no administrative proceedings before the SEC, any other federal or state regulatory agency, or any foreign financial regulatory authority.

## **Item 10 – Other Financial Industry Activities and Affiliations**

Clifford Swan Investment Counselors is an independent firm, solely engaged in the investment advisory services described in Item 4 – Advisory Business. The firm is not affiliated with any other financial firms.

## **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Our firm has adopted a Code of Ethics for all supervised persons, describing our high standard of business conduct, and fiduciary duty to our clients. To obtain a copy of our Code of Ethics at any time, please contact Gretchen Lee, Chief Compliance Officer.

### **Code of Ethics**

All principals, officers, directors and employees of Clifford Swan Investment Counselors shall:

- Act with integrity, competence, diligence, respect and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- Place the integrity of the investment profession, the interests of clients, and the interests of our firm above their own personal interests.
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and our firm.
- Comply with all applicable federal securities laws.
- Read and abide by our Personal Trading Policies and Procedures.
- Protect the privacy of our clients.
- Promptly report any violations of our Code of Ethics to the Chief Compliance Officer.

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

It is Clifford Swan Investment Counselors' policy that the firm will not affect any principal or agency cross securities transactions for client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for his or her own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

### **Cross Trading of Fixed-Income Securities**

When bonds are sold from one client account, they are often considered for inclusion in another client account. If the security is deemed suitable for another account to purchase, a cross trade pricing level is obtained from an independent broker and if the broker provides a bid that is within our minimum bid and maximum asked prices, the transaction is then executed or crossed between the accounts, with transaction fees split equally between both accounts. All fixed-income cross trades are reviewed quarterly by our firm's Best Execution Committee.

### **Personal Trading**

Employees of Clifford Swan Investment Counselors are required to abide by the firm's written Personal Trading Policy and Personal Trading Procedures. Clifford Swan employees are permitted to and do own the same securities we recommend to clients. To ensure that our clients' interests are placed before our own, and to eliminate any appearance of conflict of interest or self-serving activity that may result from our personal investment efforts, our firm has developed the following procedures:

- No equity transaction in employee-related accounts will be aggregated with clients' transactions for purposes of block trading.
- Whenever both client and employee-related trades for the same security have been approved and are pending at the same time, discretionary clients' trades will be placed first. It is possible that employees could obtain a better price than clients.
- Employees must receive approval before placing trades for individual securities and must refrain from trading any securities that our Investment Committee is considering buying or selling on a firm-wide basis, so that transactions for clients are completed before they are made for personal accounts. In addition, employees are required to report all personal transactions on a quarterly basis and report all personal securities holdings annually.

Because the Code of Ethics permits employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Our written procedures regarding employee personal trading are intended to prevent or mitigate any conflicts of interest between Clifford Swan Investment Counselors and its clients.

## Item 12 – Brokerage Practices

It is our policy, consistent with investment considerations, to seek a favorable combination of best net price and execution for brokerage orders under the circumstances. Most favorable execution is a combination of commission rates and prompt, reliable, quality execution. In placing trades for discretionary accounts, commissions must be in line with those charged by the industry in general. They need not be the lowest, provided that: (a) the broker gives excellent execution, especially on difficult trades OR (b) the broker renders other important services.

We will recommend one or more broker-dealers to clients, for brokerage and custody services. These broker-dealers are not affiliated with our firm. Our criteria for such recommendations are based upon: (1) the financial strength of the brokerage firm, (2) the quality of services rendered, and (3) commission rates.

Clifford Swan receives certain services from broker-dealers with whom we do business. These services are not contingent upon our firm committing any specific amount of business (assets in custody or trading commissions) to the broker-dealer. These services include access to both proprietary research and third-party research; the use of software that provides access to client account data (such as trade confirmations and account statements), facilitates trade execution and allocation of aggregated trade orders to multiple accounts, provides securities' pricing, and facilitates payment of our investment management fees from clients' accounts.

We have established a system of tracking the commission dollars paid by our clients to each brokerage firm. Our Best Execution Committee regularly reviews such commissions to make sure that they are consistent with the basis of their value to our clients in terms of execution capability, size of commission, and services rendered.

Orders for accounts over which we have complete discretionary authority are aggregated (block traded) where possible with a view to obtaining lower trading costs. We also seek negotiated commission discounts from brokers we utilize, including those firms that furnish us other services such as research.

Our policy is generally to place trades in the following order: (1) as approved by portfolio manager, (2) by security type, usually placing common stock trades first, using software to electronically send common stock trades to the specific brokerages, and (3) directed brokerage trades are usually placed after non-directed trades.

On any given day, if equity trades to be placed through our two largest brokerage relationships are approved at substantially the same time, the trader will look at the firm's trade rotation calendar to see where to place the trades first.

Clients have various directed brokerage options, including utilizing the services of any firm generally recommended by Clifford Swan to provide custody and execution services for clients, or any other broker that the client directs us to use. Clients who direct us to use a broker other than those we generally recommend may incur extra costs or suffer disadvantages, because they pay higher commissions in certain transactions, or they receive less favorable executions of some transactions, or both. In addition, a client that directs brokerage may not be able to participate in aggregated trades. In determining whether to direct us to utilize a particular broker or dealer, clients should compare the costs or disadvantages of such an arrangement with the value of the custodial or other services they receive.

### **Item 13 – Review of Accounts**

Review of clients' accounts is a continuous process. Our Investment Committee conducts ongoing and systematic reviews of the securities we use to construct our clients' portfolios. See Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss for information on the review process.

Investment Counselors use the firm's evaluation of securities and apply their judgment as to the appropriate holdings for each client's portfolio. Portfolio reviews with clients take place in face-to-face meetings or phone calls, scheduled on either a regular basis or as-requested basis, during which the investment counselor assigned to the account reviews the client's portfolio, performance, financial circumstances, investment objectives and general market conditions.

Clients' accounts are reconciled to their custodians' records monthly. We deliver written portfolio appraisals to our clients at least quarterly. Our appraisals show the portfolio holdings, cost basis, asset allocation, and estimated annual income. Clients also receive our newsletter with articles discussing investment topics, on a periodic basis.

### **Item 14 – Client Referrals and Other Compensation**

Our firm reserves the right to compensate former employees for client referrals in accordance with Rule 206(4)-3 of the Investment Advisers Act of 1940. The compensation we will pay to such parties is generally based upon a percentage of the revenue received by Clifford Swan as a result of the referral. Clients referred to us under these arrangements are billed at our normal fee schedule and are asked to read and sign a disclosure statement describing the referral compensation agreement. See Item—5 Fees and Compensation for our fee schedule.

In certain circumstances, we recommend our clients retain San Pasqual Trust—an independent private trust company not affiliated with Clifford Swan Investment Counselors—to provide trust

services. Clifford Swan's CEO has invested in a private equity offering of San Pasqual Trust and serves as a Director of that firm. It is possible that our firm may be offered the opportunity to serve as an underlying investment manager in an advisory program offered by that trust company to its clients.

From time to time, clients require services that are outside the scope of the investment counseling services provided by our firm (e.g., legal counsel, accounting, or insurance advice) and ask us for a referral. We can refer our clients to third parties, including persons or entities that provide professional services directly to our firm. These providers may also refer clients to us, when their clients need the types of services we provide. We do not receive or pay fees for such referrals.

Clients have no obligation to engage the services of any such introduced professionals. Although we have experience with these service providers, Clifford Swan has not performed due diligence on these service providers and is not responsible for the services provided by these services providers.

### **Item 15 – Custody**

Clifford Swan Investment Counselors does not take possession of client funds or securities. Nevertheless, the firm is deemed to have custody of some client assets through the direct debiting of management fees from client custodial accounts, the existence of third-party standing letters of instruction, or service by an employee as trustee for client accounts.

Clients will receive statements directly from the broker dealer, bank or other qualified custodian that holds and maintains the client's investment assets. Custodians are required to deliver their statements to clients at least quarterly. Clifford Swan urges clients to carefully review their statements and compare such official custodial records to the portfolio appraisals that we provide to them. Our appraisals could vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies.

Clifford Swan provides investment advisory services only and does not provide physical safekeeping of client assets, as provided by a qualified custodian. We have established procedures to avoid being deemed to have custody other than in the limited circumstances mentioned above.

### **Item 16 – Investment Discretion**

Clifford Swan usually receives discretionary authority from clients at the outset of an advisory relationship. The authority is granted in the investment advisory agreement and allows Clifford

Swan Investment Counselors to select the identity and amount of securities to be bought or sold. We exercise such discretion in a manner consistent with the stated investment objectives for the particular client account. Clients assign Clifford Swan Investment Counselors trading authority by signing the appropriate forms provided by the custodian holding the assets. See Item 4—Advisory Business for an explanation of how clients may impose restrictions on investing in certain securities or types of securities.

## **Item 17 – Voting Client Securities**

Our policy is to vote all proxies for our clients, except for those clients who have reserved voting authority for themselves. We have adopted written policies and procedures to guide us in voting proxies for our clients. To obtain a copy of our complete proxy voting policies and procedures at any time, please contact Gretchen Lee our Chief Compliance Officer.

### **Summary of Proxy Voting Policy**

Proxy voting decisions are made in light of the anticipated impact of the vote on the desirability of maintaining an investment in a company, from the viewpoint of the client, without regard to any other interests. As a matter of policy, Clifford Swan Investment Counselors will not be influenced by outside sources whose interests' conflict with the interest of clients.

### **Typical Proposals**

Proposals that regularly appear on proxies usually pertain to the election of directors, appointment of auditors, and approval of non-salary compensation plans.

- **Election of Directors.** We generally vote in favor of proposals that increase the independence of the Board of Directors from management as well as proposals that increase the shareholder's ability to replace the Board, if need be. We generally oppose proposals that would increase Board entrenchment.
- **Appointment of Auditors.** Proxies involving routine matters such as appointment of auditors will generally be voted in favor of management, unless it is determined that the auditors are not sufficiently independent of management. We generally vote in favor of proposals to separate auditing and consulting services.
- **Non-Salary Compensation.** Proposals to approve Stock Compensation Plans, Employee Stock Purchase Plans and Long-Term Incentive Plans are frequently offered by management. These plans are often complex and must be evaluated on a case-by-case basis. We generally vote with management unless the plans provide unduly generous compensation for executives and/or directors or could result in serious dilution to other shareholders.



**Summary of Procedures**

Whenever possible, we vote proxies electronically via Broadridge software, on a secure website. Ballots are compared to client holdings, which are uploaded from our portfolio management database. Paper ballots are voted through ProxyVote as they are received.

**Client Direction**

Clients who have authorized us to vote proxies on their behalf are able to provide us with written proxy voting policies or guidelines that cover issues important to them. They also can provide us written instructions on how to vote in a particular solicitation and we will vote on those issues as directed.

**Proxy Voting Report**

Clients who have authorized us to vote proxies on their behalf can request a report showing how we voted their shares.

**Item 18 – Financial Information**

Clifford Swan Investment Counselors has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients.