

## **Part 2A of Form ADV: *Firm Brochure***

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**This brochure provides information about the qualifications and business practices of Wellington Shields & Co., LLC (hereinafter “WSC”). If you have any questions about the contents of this brochure, please contact us at 212-320-2000 or [compliance@wellingtonshields.com](mailto:compliance@wellingtonshields.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.**

**Additional information about WSC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for WSC is 149021.**

**WSC 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 that you should consider in determining whether to hire or retain an Adviser.**

## **Item 2. Summary of Material Changes**

Our current (updated) Form ADV, Part 2 will be available to our existing and prospective clients 24 hours a day through the Investment Adviser Public Disclosure website. Additionally, we will annually and within 120 days of the end of our fiscal year, provide you either: (i) a copy of our Form ADV, Part 2 that includes or is accompanied by a summary of material changes; or (ii) a summary of material changes that includes an offer to provide a copy of the current Form ADV, Part 2. We urge you to carefully review all subsequent summaries of material changes, as they will contain important information about any significant changes to our advisory services, fee structure, business practices, conflicts of interest, and disciplinary history.

### **Material changes since last update March 2019.**

*This updated brochure contains no material changes.*

*We are updating and reporting our assets under management as of December 31, 2019.*

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**Item 3. Table of Contents**

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#### **Item 4. Advisory Business**

WSC is an SEC-registered investment adviser with its principal place of business located in New York, New York. WSC began conducting business in July 2010.

Listed below are the firm's principal shareholders (i.e., those individuals and/or entities directly or indirectly controlling 25% or more of the company).

- Wellington Shields Holdings, LLC
- Shields & Company
- H.G. Wellington & Company

Our firm offers the following advisory services:

##### Portfolio Management Services

Our firm provides investment supervisory services in the form of continuous advice to a client regarding the investment of client funds based on the individual needs of the client.

WSC provides discretionary and non-discretionary portfolio management advisory services. Through personal discussions with clients, goals and objectives based on a client's particular circumstances are established. During our data-gathering process, we have discussions with the client to obtain their individual objectives, time horizons, risk tolerance, and liquidity needs. WSC then develops a client's personal investment guidelines and creates and manages a portfolio based on that policy. Account supervision is guided by the stated objectives of the client. Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors.

In order to ensure that our initial determination of an appropriate portfolio continues to be suitable and that the client's account continues to be managed in a manner suitable to the client's financial circumstances, we will maintain client suitability information in the client's file. It is the client's responsibility to let us know whether there have been any changes in the client's financial situation and investment objectives and whether the client wishes to impose investment restrictions or modify existing restrictions.

Our investment recommendations are not limited to any specific product or service offered by a broker dealer or insurance company. Client portfolio holdings may also include exchange-listed and over-the-counter securities, option contracts on securities, no-load or load-waived mutual funds, exchange traded funds, corporate debt securities, United States governmental and agency securities, (e.g., U.S. Treasuries, GNMA's, etc.), certificates of deposit, warrants, commercial paper, and municipal securities.

WSC is the sponsor of a wrap-fee program (the "Wrap-Fee Program"), which is a program that provides Clients with advisory and brokerage execution services for one all-inclusive fee (the "Fee"). This means that the cost of WSC's investment advisory services, the cost of executing brokerage transactions and custodial fees are "wrapped" into a single annual fee based on the value of the Client's portfolio. Investments offered through the Wrap-Fee Program include equity, balanced and fixed income mandates. The Investment Advisor Representative ("IAR") continuously manages equity, balanced & fixed-income portfolios, where appropriate, based on the individual needs of a Client. Clients may refer to the WSC wrap-fee program brochure for more information.

The Advisory Brokerage Group provides an alternative to WSC's advisory services and offers a Wellington Shields brokerage account managed by an Advisory Brokerage Group professional registered representative on a discretionary basis. These client accounts are based upon commission charges on a trade-by-trade basis rather than an advisory fee.

Occasional fundamental and/or technical research reports may be prepared and circulated to clients, without charge.

#### Amount of Managed Assets

As of 12/31/2019, we were actively managing a total of approximately \$ 280,787,008 of clients' assets. \$256,878,486 of client's assets on a discretionary basis and \$23,908,522 on a non-discretionary basis.

### **Item 5. Fees and Compensation**

Unless otherwise noted below, the annual fee for WSC portfolio management services will be charged as a percentage of assets under management. The approximate fee schedules shown below are broad-based and may differ depending on the Portfolio Manager that handles the account.

#### WSC Portfolio Management Services

##### **Fee Schedules**

##### **Equity and Balanced Portfolios**

.20% up to 1.750% per annum of assets under management

##### **Fixed Income Fee Schedule**

.20% up to .75% per annum of assets under management

##### **401K Advisory Fee Schedule**

.20% up to 1.0% per annum of assets under management

On the last business day of each quarter, the value of each client's account will be determined by adding the value of the securities and cash equivalents and the net cash credit balance in the supervised portfolio. Fees are paid quarterly in arrears. Advisory fees are withdrawn directly from the client's account or the client will be billed directly as set forth in each client's investment advisory agreement.

For new advisory accounts, management fees will be pro-rated based on the number of days that the account was opened during the quarter.

We may group certain related client accounts for the purposes of determining the account size and/or annualized fee.

Certain legacy client agreements are governed by fee schedules different from those listed above.

Under no circumstances will we earn fees in excess of \$1,200 more than six months in advance of services rendered.

#### Termination of Advisory Relationship

A client's investment advisory agreement may be terminated by the client or WSC immediately upon written notice to the other party. In the event of termination of this service, advisory fees are pro-rated to the date of termination. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

#### Negotiability of Advisory Fees

All fees are negotiable and may vary from client to client based upon a number of factors, including, but not limited to: (1) the client type; (2) pre-existing relationship or number of other accounts; (3) assets

under management; and (4) the service requirements associated with the account. The above fee schedules are subject to modification, for example, where substantial securities positions are classified as “unsupervised assets” by the client.

#### Mutual Fund and ETF Fees and Expenses:

All fees paid to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and ETFs 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. A client could invest in a mutual fund or an ETF directly, without the services of our firm. In that case, the client would not receive the services provided by us which are designed, among other things, to assist the client in determining which mutual fund or 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 ETFs and the fees charged by us to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

#### Brokerage and Custodian Fees

In addition to advisory fees paid to our firm, clients will also be responsible for all transaction, brokerage, and custodian fees incurred as part of their account management. Please see Item 12 of this Brochure for important disclosures regarding our brokerage practices.

WSC is a dually registered broker dealer and investment adviser. The broker dealer business provides brokerage services to individuals and institutions. WSC introduces its customers to its clearing firm. WSC the broker dealer provides many advisory clients with brokerage services and receives payment for these transaction related services in the form of commissions. If a client executes recommended securities transactions through associated persons of WSC in their separate capacities as registered representatives of WSC, a FINRA member broker-dealer, individuals will earn commissions which are separate and distinct from fees charged for advisory services. Advisory fees are not reduced to offset any commissions charged. This practice presents a conflict of interest which we are required to disclose to clients. Please see Item 12 for a discussion as to how these conflicts are managed. Clients have the option to purchase investment products that are recommended by WSC through other brokers or agents that are not affiliated with WSC.

Client liquid funds are typically invested in an expanded FDIC insured cash sweep program. Interest is paid at the current bank rate for short-term demand deposits. This program will automatically invest and redeem uninvested cash held in a portfolio. Wellington Shields & Co. receives an offsetting revenue share on eligible balances from First Clearing, a division of Wells Fargo Clearing Services, LLC (“First Clearing”) based upon the aggregate amount of customer funds deposited and the 90-day LIBOR. Under WSC’s agreement with First Clearing, this may result in as much as 75 basis points (0.75%) annual rate of the cash balances. This payment from First Clearing is considered a conflict of interest, as it would provide an incentive for WSC to direct client asset flows into lower yielding cash returns for its own gain. Our focus and ultimate incentive however is to grow assets by generating the highest returns possible on a risk adjusted basis for our clients. Thus, the conflict is mitigated by the fact that the lower returns of excessively large balances affect the overall performance of a portfolio and the upside potential of both WSC and the client.

#### Fee Calculation

The fee charged is calculated as described above and is not charged on the basis of a share of capital gains upon or capital appreciation of the funds or any portion of the funds of an advisory client (Section 205(a)(1) of the Advisers Act).

#### P.G. Group Fees

The P.G. Group of WSC has a slightly different fee schedule than WSC’s disclosed above. P.G. Group

clients are charged as a percentage of assets under management according to the following schedule:

<b><u>Assets under Management</u></b>	<b><u>Annual Fee</u></b>
First \$100,000	1.00%
Next \$400,000	.75%
Next \$500,000	.50%
Above \$1,000,000	.25%

P.G. Group advisory fees are typically charged on a semi-annual basis, in arrears, and based upon the portfolio asset value at the end of each six-month period. There is no minimum fee or account minimum for the P.G. Group.

#### **Advisory Fees in General**

Clients should note that similar advisory services may be available from other registered investment advisers for similar or lower fees.

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

We do not charge any fees based on a share of capital gain on or capital appreciation of the assets of the client.

Our fees are calculated as described above and are not charged on the basis of a share of capital gains upon or capital appreciation of the funds or any portion of the funds of an advisory client (Section 205(a)(1) of the Investment Advisers Act of 1940, as amended).

Side-by-side management refers to multiple client relationships where an adviser manages advisory client relationships and portfolios on a simultaneous basis for individuals, businesses, institutions and also mutual funds and/or hedge funds. In such circumstances, potential conflicts of interest may arise by and between the clients and the mutual and hedge funds, e.g., performance fee arrangements. We do not have these relationships, so we do not have side-by-side management potential or actual conflicts of interests.

WSC currently does not have any mutual funds or hedge fund client relationships or charge any performance fees.

#### **Item 7. Types of Clients**

Our firm generally provides discretionary and non-discretionary portfolio management advisory services to individuals, corporations, trust, estates, charitable organizations, pension and profit sharing plans, banks and thrift institutions as well as other types of businesses and institutional clients.

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

Our portfolio managers, in their individual capacity, may use all or may use some of the following methods of analysis to determine which securities to buy, sell or hold:

Fundamental analysis: We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

Technical analysis: We analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and to potentially predict future price movement.

Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly-managed or financially unsound company may underperform regardless of market movement.

Charting: In this type of technical analysis, we review charts of market and security activity in an attempt to identify when the market is moving up or down and to predict when how long the trend may last and when that trend might reverse.

Risks for all forms of analysis: Our securities analysis method relies on the assumption that the companies whose securities we review, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

Third-Party Manager Analysis: We examine the experience, expertise, investment philosophies, and past performance of independent third-party investment managers in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. We monitor the manager's underlying holdings, strategies, concentrations and leverage as part of our overall periodic risk assessment. Additionally, as part of our due-diligence process, we survey the manager's compliance and business enterprise risks.

A risk of investing with a third-party manager who has been successful in the past is that he/she may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a third-party manager's portfolio, there is also a risk that a manager may deviate from the stated investment mandate or strategy of the portfolio, making it a less suitable investment for our clients. Moreover, as we do not control the manager's daily business and compliance operations, it is possible for us to miss the absence of internal controls necessary to prevent business, regulatory or reputational deficiencies.

Mutual fund and/or ETF/ETN analysis: We look at the experience and track record of the manager of the mutual fund or exchange traded fund ("ETF") or exchange traded notes ("ETN") to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. We also look at the underlying assets in a mutual fund or ETF/ETN in an attempt to determine if there is significant overlap in the underlying investments held in other funds in the client's portfolio.

A risk of mutual fund and/or ETF/ETN analysis is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF/ETN, managers of different funds held by the client may purchase the same security, increasing the risk to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund or ETF/ETN, which could make the fund or ETF/ETN less suitable of the client's portfolio.

We use the following strategies in managing client accounts:

Long-term purchases: We purchase securities with the idea of holding them in the clients account for a year or longer. We may do this because we believe the securities to be currently undervalued. We may do this because we want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy is that, by holding the security for this length of time, we may not



take advantages of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

Short-term purchases: We purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase.

A risk in a short-term purchase strategy is that, should the anticipated price swing not materialize, we are left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

Margin transactions: When employing this strategy, we may purchase stocks for your portfolio with money borrowed from your brokerage account. This allows you to purchase more stock than you would be able to with your available cash, and allows us to purchase stock without selling other holdings.

A risk in margin trading is that, in volatile markets, securities prices can fall very quickly. If the value of the securities in your account minus what you owe the broker falls below a certain level, the broker will issue a “margin call”, and you will be required to sell your position in the security purchased on margin or add more cash to the account. In some circumstances, you may lose more money than you originally invested. There are interest costs associated with trading on margin that will negatively affect returns.

Option transactions: Certain strategies use options as an investment strategy. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. An option is also a derivative, because it derives its value from an underlying asset.

The two types of options are calls and puts:

A call gives the buyer the right to buy an asset at a certain price within a specific period of time. For certain strategies we will buy a call if our analysis indicates that the stock may increase in value before the option expires.

A put gives the buyer the right to sell an asset at a certain price within a specific period of time. For certain strategies we will buy a put if our analysis indicates that the price of the stock may fall before the option expires.

Options can be used to speculate on the possibility of a sharp price swing. We may use options to “hedge” a purchase of the underlying security; in other words, we will use an option purchase to limit the potential upside and/or downside of a security we have purchased for your portfolio.

Some portfolios use “covered calls”, in which we sell an option on security you own. In this strategy, you receive a fee for making the option available, and the person purchasing the option has the right to buy the security from you at an agreed-upon price.

A risk of covered calls is that the option buyer does not have to exercise the option, so that if we want to sell the stock prior to the end of the option agreement, we have to buy the option back from the option buyer, for a possible loss. A covered call strategy may also limit upside appreciation.

We may use a “spreading strategy”, in which we purchase two or more option contracts (for example, a call option that you buy and a call option that you sell) for the same underlying security. This effectively puts you on both sides of the market, but with the ability to vary price, time and other factors.

A risk of spreading strategies is that the ability to fully profit from a price swing is limited.

For all strategies:

*Clients should understand that investing in any securities, including mutual funds, involves a risk of loss of both income and principal.*

#### **Item 9. Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

Our firm and our management personnel have no reportable disciplinary events to disclose.

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

WSC is a dually registered broker-dealer, and registered investment adviser and a member of FINRA, NYSE and SIPC. WSC is a broker-dealer that provides brokerage services to individuals and institutions. WSC, in turn, introduces its clients to a clearing firm, Wells Fargo Clearing Services, LLC a registered broker-dealer to act as custodian for their accounts.

WSC provides many advisory clients with brokerage services and receives payment for these transaction related services in the form of commissions.

In addition to its principal business line of brokerage activities, WSC is affiliated with Wellington Shields Capital Management, LLC ("WSCM"), a registered investment adviser that provides advisory services to separately managed accounts. WSC directors, David V. Shields, and W. Jameson McFadden, are shareholders and directors of WSCM.

WSC and WSCM are separate limited liability companies that are wholly owned by Wellington Shields Holdings, LLC. WSC also provides brokerage services for the majority of WSCM's clients.

WSC is affiliated with Capital Management Associates, Inc. ("CMA") a registered investment adviser that provides advisory services to separately managed accounts. CMA serves as an investment advisor for the Wellington Shields All-Cap (WSACX) series of the Capital Management Investment Trust ("Trust"), a registered open-end management investment company. WSC directors, David V. Shields, W. Jameson McFadden, are shareholders and directors of CMA.

Messrs., D. Shields, and W.J. McFadden are owners of Capital Management Associates, Inc., an investment adviser for the diversified series of the Capital Management Trust (the "Trust"), a registered open-end investment company. The Trust may be offered in certain circumstances to clients of WSC which clients will pay fees in connection with their investment in the Trust in which Messrs. Shields and W.J. McFadden will indirectly benefit. WSC is the principal underwriter and distributor of the Trust and the Fund's exclusive agent for the distribution of shares in the Trust, for which it receives fees and/or commissions. Furthermore, clients will not be charged advisory fees by WSC in addition to advisory fees associated with their investments in the Trust.

Because WSC is dually registered broker-dealer, the management persons and other employees of WSC are: (1) management persons and registered representatives of a FINRA member broker dealer. In their separate capacities as registered representatives, these individuals will be able to effect securities transactions for WSC's advisory clients, for which they will receive separate and additional compensation. Clients, however, are not under any obligation to engage these individuals when considering the purchase/sale of securities or insurance.

Clients should be aware that the receipt of additional compensation by WSC and its management persons or employees creates a conflict of interest that may impair the objectivity of WSC and these individuals when making advisory recommendations. WSC endeavors at all times to put the interest of its clients first as part of its fiduciary duty as a registered investment adviser and takes the following steps to address this conflict:

- WSC discloses to clients the existence of all material conflicts of interest, including the potential for WSC and its employees to earn compensation from advisory clients in addition to WSC's advisory fees;
- WSC discloses to clients that they are not obligated to purchase recommended investment products from WSC's employees or Related Companies;
- WSC collects, maintains and documents accurate, complete and relevant client background information, including the client's financial goals, objectives and risk tolerance;
- WSC's management conducts periodic reviews of each client account to verify that recommendations made to a client are suitable to the client's needs and circumstances;
- WSC requires that its employees seek prior approval of any outside employment activity so that WSC may ensure that any conflicts of interests in such activities are properly addressed;
- WSC periodically monitors these outside employment activities to verify that any conflicts of interest continue to be properly addressed by WSC; and
- WSC educates its employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

#### **Item 11. Code of Ethics, Participation in Client Transactions and Personal Trading**

WSC has adopted a written Code of Ethics which requires the firm to comply with certain rules, laws and securities regulations, including but not limited to information involving securities holdings of employees. WSC has adopted a Code of Ethics for the purpose of instructing its personnel in their ethical obligations and to provide rules for their personal securities transactions. This code is based on three underlying fiduciary principles: (1) our duty at all times to place the interest of our clients first; (2) the requirement that all our personal securities transactions be conducted consistent with this code and in such a manner as to avoid an actual or potential conflict of interest or any abuse of an individual's position of trust and responsibility; and (3) the fundamental standard that our investment personnel should not take inappropriate advantage of their positions. Among other things, our Code of Ethics requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code provides for oversight, enforcement and recordkeeping provisions. Clients or prospective clients may obtain a copy of the Code of Ethics upon request to the Compliance Department at the firm's principal office address or by telephone at (212) 320-3000. Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Our firm and/or individuals associated with our firm may buy or sell for their personal accounts securities identical to or different from those recommended to our clients. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client.

It is the expressed policy of our firm that no person employed by us may purchase or sell any security immediately prior to a transaction(s) being implemented for an advisory account, thereby preventing such employee(s) from benefiting from transactions placed on behalf of advisory accounts.

## **Item 12. Brokerage Practices**

The investment advisory agreement between WSC and each advisory client sets forth that WSC may act as broker/agent in executing securities transaction in accordance with Section 11(a) of the Securities Exchange Act of 1934 and Rule 11a-2 (2)(T) to the extent applicable. The majority of WSC advisory clients transactions will, with a few exceptions, be executed through WSC. While WSC has a reasonable belief that it can meet its fiduciary obligation to obtain best execution, it will not be independently seeking best execution price capability through other broker-dealers. Clients are not required to use WSC as a broker-dealer for the execution of trades.

In certain situations, WSC may select broker-dealers that WSC believes will obtain the best execution for the advisory client, taking into consideration numerous factors, including price paid or received for a security, commissions charged, financial integrity and condition of the firm, ability to consummate and clear trades in an orderly and satisfactory manner, consistent quality of service, and broad market coverage resulting in a continuous flow of information concerning bids and offers. The reasonableness of commissions is based on the broker's stability, reputation, ability to provide professional services, competitive commission rates and prices, research, trading platform, and other services which will help WSC in providing investment management services to clients.

Presently WSC does not have any soft-dollar arrangements and does not receive any soft-dollar benefits. In the event that the firm elects to do so in the future, in addition to the factors set forth above, WSC may consider brokerage and research services in selecting broker-dealers, subject to Section 28(e) of the Securities and Exchange Act of 1934 ("Section 28(e)"). These services include advice, either directly or through publications or writing, as to the value of securities, the advisability of purchasing or selling of securities; analyses and reports concerning issuers, securities or industries; information on economic factors and trends; assistance with portfolio strategies; computer software and hardware used in security analysis; portfolio performance evaluation services; and technical analysis. These services are of the type described in Section 28(e) and are designed to augment WSC's own internal research and investment strategy capabilities. This may be done without prior agreement or understanding by the client (and done at WSC's discretion).

Research services obtained through the use of soft dollars may be developed by brokers to whom brokerage is directed or by third-parties which are compensated by the broker. WSC does not attempt to put a specific dollar value on the services rendered or to allocate the relative costs or benefits of those services among clients, believing that the investment research WSC receives will help WSC to fulfill its overall duty to its clients. WSC may not use each particular research service, however, to service each client. As a result, a client may pay brokerage commissions that are used, in part, to purchase research services that are not used to benefit that specific client.

Broker-dealers selected by WSC may be paid commissions for effecting transactions for WSC's clients that exceed the amounts other broker-dealers would have charged for effecting these transactions if WSC determines in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those broker-dealers, viewed either in terms of a particular transaction or WSC's overall duty to its discretionary client accounts.

Certain items obtainable with soft dollars may not be used exclusively for either execution or research services. The cost of such "mixed-use" products or services will be fairly allocated and WSC makes a good faith effort to determine the percentage of such products or services which may be considered as investment research. The portion of the costs attributable to non-research usage of such products or services is paid by WSC to the broker-dealer in hard dollars in accordance with the provisions of Section 28(e).

When WSC uses client brokerage commissions to obtain research or brokerage services, it receives a benefit to the extent that WSC does not have to produce such products internally or compensate third-parties with its own money for the delivery of such services. Therefore, such use of client brokerage

commissions results in a conflict of interest, whereby WSC has an incentive to direct client brokerage to those brokers who provide research and services utilized by WSC, even if these brokers do not offer the best price or commission rates for our clients.

WSC's standard commission schedule is the established commission schedule of its clearing firm, Wells Fargo Clearing Services, LLC. Brokerage commissions and commission equivalent rates can be individually negotiated or discounted, and thus a client may be charged different commissions and commission equivalent rates than those charged to other clients for identical transactions. These different rates are due to, among other things, differences in the size and nature of the respective accounts. WSC does negotiate a minimum ticket charge in some instances. WSC recommends to its Advisors that they take appropriate steps to ensure written documentation is maintained to substantiate the client's acknowledgement of the agreed upon commission rate or schedule.

### Directed Brokerage

WSC permits clients to direct brokerage as long as the request to direct brokerage is provided in writing. This writing can be part of the advisory contract or a separate instruction. If a client, when undertaking an advisory relationship with our firm, already has a pre-established relationship with a broker and instructs us to execute all transactions through that broker, it should be understood that under those circumstances, WSC will not have the authority to negotiate commissions, obtain volume discounts and best execution may not be achieved. In addition, under these circumstances a disparity in execution prices may exist between the prices paid by other clients since our firm will not be able to aggregate orders.

If the directed brokerage involves a referral by the broker, a conflict may arise between the client's interest in receiving best execution and WSC interest in receiving future referrals from the broker.

### Trade Aggregation

Client accounts are separately managed by each Portfolio Manager of WSC. Portfolio Managers will only block their own clients' transactions together. A Portfolio Manager's client's transactions are not blocked with transactions by other Portfolio Managers.

WSC advisory clients do not benefit from any reduction in commission costs from the bunching of client orders. WSC will aggregate or combine trades where possible and when advantageous to clients. This blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple client accounts. Block trading allows WSC to execute equity trades in a more timely, efficient, and equitable manner.

We may aggregate our employee trades with client trades. In case there is a partial fill of a particular batch order, we will allocate all the purchases pro-rata, with each account paying average price.

To mitigate these potential conflicts of interest and ensure the fulfillment of our fiduciary responsibilities, we have established the following restrictions:

1. No principal or employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her employment unless the information is also available to the investing public on reasonable inquiry. No principal or employee of our firm may prefer his or her own interest to that of the advisory client.
2. It is the expressed policy of our firm that no person employed by us may purchase or sell any security immediately prior to a transaction(s) being implemented for an advisory account, and therefore, preventing such employees from benefiting from transactions placed on behalf of advisory accounts;
3. We maintain records of all securities holdings for our firm and anyone associated with this

advisory practice with access to advisory recommendations. These holdings are reviewed on a regular basis by the Compliance Department;

4. We emphasize the unrestricted right of the client to decline to implement any advice rendered, except in situations where our firm is granted discretionary authority;
5. All of our principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices; and
6. Any individual not in observance of the above may be subject to disciplinary action or termination.

### Trade Errors

As a fiduciary, WSC has the responsibility to effect orders correctly, promptly and in the best interests of our clients. In the event any error occurs in the handling of any client transactions, due to WSC's actions, or inaction, or actions of others, WSC's policy is to seek to identify and correct any errors as promptly as possible without disadvantaging the client or benefiting WSC in any way.

If the error is the responsibility of WSC, any client transaction will be corrected and WSC will be responsible for any client loss resulting from an inaccurate or erroneous order.

If the result is a gain, that gain will remain in the clients benefit, unless doing so would violate client guidelines or legal restrictions. In which case, the difference would be put into the firm's error account.

WSC policy and practice is to monitor and reconcile all trading activity, identify and resolve any trade errors promptly, document each trade error with appropriate supervisory approval and maintain a trade error file.

### **Item 13. Review of Accounts**

While the underlying securities in all accounts are regularly monitored these accounts are formally reviewed annually. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment or upon a client's request. Individual assets held in the portfolios are reviewed to determine if they conform to the investment strategy designed to meet the client's account objective(s). The overall investment portfolio, as well as the individual assets, performance of current holdings and including an analysis of individual purchase and/or sales of securities are reviewed.

These accounts are reviewed by the Managing Director, Compliance Department, Portfolio Manager or a designated officer of the firm.

Statements are sent to clients at least quarterly. Any account that has activity will receive a statement monthly. Accounts with no activity during the course of the month will not receive a statement for that month. However, all clients will receive a minimum of four statements each year, sent at quarterly intervals – March, June, September and December.

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

WSC and its principal executive officer and employees may receive additional compensation as described in Item 10 of this Brochure. Please refer to Item 10 for a detailed explanation of these relationships and important conflict of interest disclosures.

The registered representatives of WSC may be compensated for the referral of advisory accounts. Each

referral fee varies significantly depending on the nature and length of continuing service provided by the registered representative to the individual client.

Payment of referral fees for prospective client referrals creates a potential conflict of interest to the extent that such a referral is not unbiased and the solicitor is, at least partially, motivated by financial gain. Therefore, such a referral may be made even if our advisory services are not suitable to a particular client's needs or entering into an advisory relationship with us is not, overall, in the best interest of the client. As these situations represent a conflict of interest, we have established the following restrictions in order to ensure our fiduciary responsibilities:

1. All such referral fees are paid in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements;
2. Any such referral fee will be paid solely from our investment management fee, and will not result in any additional charge to the client;
3. All referred clients will be carefully screened to ensure that our fees, services, and investment strategies are suitable to their investment needs and objectives.

WSC may receive 12b-1 service fees and administrative fees from mutual funds utilized for cash management in the accounts domiciled with its custodian, including those of WSC advisory clients. These fees are disclosed in the fund prospectuses that are mailed to each client. While we endeavor at all times to put the interest of our clients first as part of our fiduciary duty, the possibility of receiving these fees creates a conflict of interest, and may affect the judgment of WSC.

#### **Item 15. Custody**

Clients will receive monthly/quarterly statements from their account custodian(s) and are urged to carefully review each statement. In order to ensure that all account transactions, holdings and values are correct and current, WSC urges clients to compare our firm's statement with the statement you receive directly from your qualified independent brokerage or bank custodian.

#### **Item 16. Investment Discretion**

The investment advisory agreement between WSC and each advisory client sets forth WSC's discretionary authority to purchase and sell securities on the client's behalf. WSC generally has discretion as to which securities to buy or sell for the account and the amount of such securities. The firm's discretionary authority regarding investments can, however, be subject to certain limitations imposed by the client. Clients are permitted to limit the discretionary authority of WSC by specifying securities or industries which are not to be purchased or sold on their behalf, and such limitations are noted in their investment policy, advisory contract or under separate cover.

The selection of brokers, including our affiliate WSC, is contained in the advisory agreement and, as such, is consented to in advance by the client.

#### **Item 17. Voting Client Securities**

Unless the parties otherwise agree, WSC shall have no obligation to take any action or render any advice with respect to the voting of proxies solicited by or with respect to issuers of securities held by an Account. The custodian is directed to forward all shareholder related materials to the owner of the account. Client (or the plan fiduciary in the case of an Account subject to the provisions of ERISA) expressly retains the authority and responsibility for, and WSC is expressly precluded from rendering any advice or taking any action with respect to, the voting of any such Client proxies.

WSC has retained Broadridge to provide proxy research and recommendations, as well as record keeping services, for those certain clients who have authorized WSC to vote their proxies. We have fully reviewed and approved the Proxy Edge voting guidelines and follow their recommendations on most issues brought to a shareholder vote. In the rare instance where our research or security analyst believes that a Proxy Edge recommendation would be to the detriment of our investment clients, we can and will override the Proxy Edge recommendation through a manual vote. The final authorization to override a Proxy Edge recommendation must be approved by the Director of Research or Portfolio Manager or Chief Compliance Officer. A written record supporting the decision to override the Proxy Edge recommendation is maintained.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting the Compliance Department by telephone, email or in writing. Clients may request, in writing, information on how proxies for his/her shares were voted. If any client requests a copy of our complete proxy policies and procedures or how we voted proxies for his/her account(s), we will promptly provide such information to the client.

We will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's account(s), including, but not limited to, the filing of "Proofs of Claim" in class action settlements. If desired, clients may direct us to transmit copies of class action notices to the client or a third party. Upon such direction, we will make commercially reasonable efforts to forward such notices in a timely manner.

#### **Item 18. Financial Information**

Under no circumstances will we earn fees in excess of \$1,200 more than six months in advance of services rendered. WSC has no additional financial information to report.