

Item 1 – Cover Page

Salem Investment Counselors

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This Brochure provides information about the qualifications and business practices of Salem Investment Counselors (“Salem”). If you have any questions about the contents of this Brochure, please contact the firm via telephone at (336) 768-7230 or email at Kip@salemcounsel.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.

Salem Investment Counselors is a federally registered Investment Advisor. Registration of an Investment Advisor does not imply any level of skill or training. The oral and written communications of an Advisor provide you with information from which you determine to hire or retain an Advisor.

Additional information about Salem Investment Counselors is available on the Securities and Exchange Commission’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

On July 28, 2010, the United States Securities and Exchange Commission (“SEC”) published “Amendments to Form ADV” which amends the disclosure document that Salem Investment Counselors (“Salem”) provides to clients as required by SEC Rules. In accordance with these rules, Salem Investment Counselors first filed this brochure on March 30, 2011.

For the filing on March 30, 2012, Salem did not make any material changes to the firm’s Brochure.

For the filing due March 29, 2013 Salem has updated the assets under management (Item 4) and the biographies of the investment advisors (Item 13). Salem has also updated the language in Item 16, describing the limits that may be placed on Salem’s discretionary authority. These changes were minor in nature and do not constitute a major change in the structure or business of Salem Investment Counselors.

For the filing due March 28, 2014 Salem has updated the assets under management (Item 4), the list of partners (Item 4), the named outside affiliations and activities of Salem’s personnel (Item 10) and the biographies of the investment advisors (Item 13). These changes were made due to one of Salem’s partners, Robert “Bob” T. Beach, retiring at the end of 2013.

For the filing due March 31, 2015 Salem has updated the assets under management (Item 4), the review of accounts section (Item 13), and the custody section (Item 15). The only major change was to Item 15 as Salem now acknowledges that our interactions with clients and custodians grant us custody in more instances than the collection of fees.

For the filing due March 30, 2016 Salem has updated the assets under management (Item 4), the review of accounts section (Item 13) and the custody section (Item 15). For Item 13, the biographies of two new employees at Salem, Joe McCaffrey and Lyn Williams were added. The details of the annual surprise audit to comply with the SEC’s custody rules were added to Item 15.

For the filing due March 30, 2017 Salem has updated the assets under management (Item 4), the brokerage practices section (Item 12) and the custody section (Item 15). For Item 12, the details of how Salem handles trade errors were added. Additional language concerning how statements and confirmations are sent to clients was added to Item 15.

For the filing due March 31, 2018, Salem has updated the assets under management (Item 4), the Fees and Compensation and Investment Discretion (Item 5 and Item 16) and the custody section

(Item 15). For Items 5 and 16, Salem discloses that it will always try to use the lowest cost investment option when investing for clients using investments that have annual expenses (such as mutual funds and exchange traded funds). For Item 15, Salem has added language acknowledging that the use of standing instructions for check and ACH disbursements as well as the use of wires for the movement of client funds constitutes custody under current regulations.

For the filing due March 31, 2019, Salem has updated the assets under management (Item 4), the brokerage practices section (Item 12) and the Review of Accounts section (Item 13). For Items 4 and 13, Salem has updated the value for the assets under management as well as removed William Watson as a principal and advisor at Salem due to his retirement. The brokerage practices section has received two updates. The first is a more robust description of the criteria that Salem utilizes in selecting potential independent custodians for client accounts. The second update concerns a reimbursement agreement that Salem has entered into with Charles Schwab that requires Schwab to reimburse Salem for part of the cost of implementing the Tamarac Portfolio Management System for two years. This agreement is not dependent upon Salem directing client assets to Schwab or conducting any type of trading at Schwab.

For the filing due March 31, 2020, Salem has updated the assets under management (Item 4), the Fees and Compensation section (Item 5) and the Investment Discretion section (Item 16). Item 4 has been updated to include the most recent calculation of assets under management as well as language clarifying that private investments are managed by Salem on a non-discretionary basis. The fee and compensation section has been updated to include the use of the Tamarac portfolio management software's calculation of the account balance as the basis for the billing calculation. In addition, Salem has clarified that margin accounts will only be billed on the net value of the account. Item 16 has been updated to describe Salem's management role concerning private, non-discretionary assets.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. Salem will also reference the date of the last annual update of the brochure.

In the past, Salem has offered or delivered information about the qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, Salem will ensure that clients receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of Salem's fiscal year (December 31st). Salem may also provide other ongoing disclosure information about material changes as necessary.

Salem will provide clients with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, Salem's Brochure may be requested by contacting Kip Keener, Chief Compliance Officer at (336) 768-7230 or Kip@salemcounsel.com.

Additional information about Salem Investment Counselors is also available on the Securities and Exchange Commission's website at www.adviserinfo.sec.gov.

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Item 4 – Advisory Business

Founded in 1979, Salem is a federally registered Investment Advisor that provides financial management expertise to individuals, foundations, corporations and professional organizations throughout the United States. As of December 31st, 2020, Salem had assets under management of \$1,640,685,984. All public, marketable securities are managed subject to Salem's discretion. Salem also assists clients with the management of private investments (such as limited partnerships) on a non-discretionary basis.

Salem offers investment management services, including financial planning and asset management. Salem believes that investment advice is only effective if all aspects of the client's needs and circumstances are considered. This includes understanding the client's short- and long-term investment and financial goals, ascertaining the client's risk tolerance and analyzing the client's financial situation with regard to taxation, insurance and investment allocation issues.

After partnering with clients to understand their investment needs, Salem constructs and manages the client's investment portfolio. Salem utilizes a broad range of investment vehicles to meet a client's investment goals including: individual stocks, fixed income securities, exchange traded funds, mutual funds, real estate investment trusts, master limited partnerships and private equity funds. Client assets are invested in one or more of the above categories according to the asset allocation agreed upon with the client.

Salem will respect and incorporate any client restrictions that the client imposes upon the investment account.

Salem is wholly owned by its partners. The equal-share principal owners of Salem Investment Counselors include: Dale M. Brown, David B. Rea, Jeffrey C. Howard, Kenneth S. Jones and Mark Thompson.

Item 5 – Fees and Compensation

Salem's normal fee for services is 1% per year of assets under management. Discounts and premiums to the fee schedule may be negotiated with each client. In addition, Salem may utilize a flat annual fee in lieu of the percentage of assets under management. Salem's fees are billed at the end of each calendar quarter.

The fees for marketable securities are based on the market value of the account as determined by the Tamarac portfolio management system at the end of the calendar quarter. The Tamarac system receives pricing data on all securities from the account custodians.

The fees for private investments are based on the most recent partner statement issued by the investment and then and uploaded by Salem into the Tamarac portfolio management system. Private investments for which no partner statement has been issued within the most recent twelve-month period will not be billed by Salem.

At the client's option, this fee may be paid directly from the account. The fee is debited from the client's account or paid by the client outside of the account generally within two months of the end of the quarter. Accounts initiated or terminated during a calendar quarter may be charged a prorated fee. All clients receive a billing statement from Salem showing the fee calculation methodology as well as the final amount of fees charged to the client.

In addition to the management fee charged by Salem, clients may be subject to other fees and expenses associated with the management of the account. Salem's fees are exclusive of brokerage commissions, transaction fees and other related costs and expenses which may be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, and third-party investment advisors such as management fees, custodial fees, transfer fees, transaction fees, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds, exchange traded funds, master limited partnerships and private equity managers may also charge internal management fees. The details of these fees may be found in each investment's prospectus or website. Such charges, fees and commissions are exclusive of and in addition to Salem's fee, and Salem shall not receive any portion of these commissions, fees, or charges.

For investments (such as mutual funds and exchange traded funds) that charge annual expense fees, Salem will always prioritize using an investment option that charges the lowest expense fee to the client.

For investment accounts that have margin enabled, Salem will only bill on the net amount of the account (i.e. the balance of the account after subtracting the amount outstanding on the margin loan).

Item 12 further describes the factors that Salem considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation.

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

Salem Investment Counselors does not charge any performance-based fees (fees based on a share of capital gains or capital appreciation of the assets of a client).

Item 7 – Types of Clients

Salem Investment Counselors provides portfolio management services to individuals, corporations, corporate retirement and profit-sharing plans, charitable institutions, foundations and trusts.

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

Salem Investment Counselors designs portfolios to meet the client's return objective and risk tolerance. Salem believes that equities should be the foundation of most investment portfolios. Salem does not believe that "timing" the stock market through anticipating periods of rising and falling stock prices can successfully be done on a consistent basis. Salem selects equities for client investment which have one or more of the following characteristics:

- Established companies with above average prospects for growth. These companies will have strong performance records, solid market positions, high margins and return on equity and reasonable financial strength.
- Small and medium-sized companies that may be out of favor or not closely followed by investors and are selling at prices which do not adequately reflect their long-term business potential.
- Companies in industries which are undergoing consolidation, where the likelihood of acquisition is above average.

Salem's investment philosophy with respect to both taxable and tax-exempt fixed income securities is to minimize risk for clients. Salem considers primarily high-quality issues in the short-to-intermediate maturity range that Salem is confident will meet the scheduled interest and principal payments.

In addition to the core equity and fixed income investing, Salem may utilize a broad range of investment vehicles to meet a client's investment goals including: exchange traded funds, mutual funds, real estate investment trusts, master limited partnerships and private equity. These assets are complimentary to the core investment approach and may be used to augment Salem's core investment strategy or to meet a specific need of a client.

Salem may also use technical analysis (price movement analysis) to aid in determining prices that offer beneficial entry and exit transactions for securities in client accounts.

From time to time, Salem will receive shares in initial public offerings and secondary offerings from various brokers with whom the company does business. These shares are generally very limited in number and may or may not represent "hot issues." The shares will be allocated in a fair and equitable manner among the advisors requesting the shares on behalf of clients. The individual advisor will then distribute those shares in a fair and equitable manner to those clients for whom such investments are suitable according to the firm's IPO/Secondary policy.

Investing in any security involves a risk of loss that clients should be prepared to bear. The price of a company's stock may fall for several reasons including, but not limited to, problems with the company and general market/economic/political conditions. Movements in interest rates and general market/economic/political conditions may affect the day-to-day valuation of our fixed income investments resulting in a loss of value.

Item 9 – Disciplinary Information

Registered Investment Advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of Salem or the integrity of Salem's management. Salem has no information applicable to this item.

Item 10 – Other Financial Industry Activities and Affiliations

All of the employees of Salem may participate in outside activities. None of these activities may present a conflict or distraction to their employment at Salem. Currently, none of the employees at Salem participate in other financial activities.

Item 11 – Code of Ethics

Salem has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to clients. The Code of Ethics includes, among other things, provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures. All supervised persons at Salem review and acknowledge the terms of the Code of Ethics annually. This Code is available to any client/prospective client at any time upon request. Salem has also adopted a Compliance Manual, containing all of its policies. A copy of the manual is available upon request.

Salem and its employees may, for their personal accounts, buy or sell securities identical to those recommended to clients. Additionally, any employee may have an interest or position in a certain security(ies) which may also be recommended to a client. Employees may also participate in private equity offerings that are also recommended to clients for whom such investments are suitable. These offerings are generally managed by third party advisors and are not under the control of Salem or any of its employees. As these situations may represent a potential conflict of interest, Salem has established strict policies governing personal securities transactions in order to protect the interest of its clients.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Salem 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. Under the Code, certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of Salem's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, 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. Employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between Salem and its clients. All personal securities transactions and holdings are reported to the Chief Compliance Officer for review.

It is Salem's policy that the firm will not affect any principal securities transactions for client accounts. Salem will also not cross equity trades between client accounts. Salem may cross fixed income securities between client accounts according to the following parameters: 1) the clients must be unrelated 2) a third party broker, typically the clients' custodian, independently sets the pricing levels for both the buyer and seller based on current market prices and 3) the prices paid by both the buyer and seller are better than the open market pricing.

Principal transactions are generally defined as transactions where an advisor, acting as principal for its 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 advisor in relation to a transaction in which the investment advisor, or any person controlled by or under common control with the investment advisor, acts as broker for both the advisory client and for another person on the other side of the transaction.

Item 12 – Brokerage Practices

Salem Investment Counselors utilizes independent, third party custodians to hold client assets and execute transactions on behalf of clients in marketable securities. Salem does not require that clients use a specific custodian but will point out the potential advantages and disadvantages of various custodians. In selecting custodians that Salem is willing to work with on behalf of clients, Salem considers a wide range of factors, including:

- An individual or multiple client desire to utilize a custodian.
- The combination of transaction execution services and asset custody services.
- The capability to execute, clear and settle trades for clients.
- The capability to facilitate transfers and payments to and from client accounts.
- The breadth of available investment products available to be held in client accounts.
- The quality of service provided to the advisor in servicing client accounts.
- The competitiveness of the pricing for these services.
- The reputation, financial strength, security and stability of the custodian.
- The quality and length of prior service provided to the advisor and clients.

Salem Investment Counselors utilizes two sources for executing client transactions. The first source is the brokerage services provided by the client's custodian. Salem's second source for executing client transactions is independent brokers that have established relationships with Salem. Depending upon the client's custodian, either of these options may be available for executing client transactions. The investment advisors at Salem have discretion to direct securities transactions to either source. Many factors go into this decision, including but not limited to the commission charged, the quality of the execution and the ease of settling trades with the broker. Salem only maintains relationships with custodial and independent brokers who offer competitive brokerage rates.

Clients may also direct Salem to use a particular broker for transactions in their account. Salem will abide by this direction after informing clients that such directed brokerage may result in less than favorable execution of the client's transaction.

Salem's custodial and independent brokers may send research reports to some or all of the investment advisors at Salem. The investment advisors at Salem may use this research to help make investment selections for client accounts and Salem may direct trades to the broker providing such research.

Salem does not receive any soft dollar benefit other than research from any of its brokers. Salem does not have any agreements or understandings with brokers to direct client transactions to a particular broker, or to pay commissions higher than those obtainable from other brokers in return for research products or services. The company reviews all trading and brokerage

relationships to ensure that Salem's clients are receiving the best execution from brokers. In 2019, Salem entered into an agreement with Charles Schwab to help cover the cost of Salem beginning a relationship with Tamarac to use their portfolio management system for all of Salem's accounts. Under the terms of the agreement, Schwab reimburses Salem for a percentage of the annual cost of the system for two years. This agreement is not dependent upon Salem directing client assets to Schwab or conducting any type of trading on the Schwab system. Schwab's motivation for the agreement was to help Salem add a technology solution that will benefit its practice, clients and overall satisfaction with Schwab in a manner that limits Salem's financial risk.

Whenever possible and appropriate, client trades may be aggregated for the purpose of executing block trades. Each account will participate in a block order at an average price and all transaction costs are shared on a pro-rata basis. Occasionally, a block trade will not be filled due to the use of a limit order or the type of stock (such as a small cap stock with limited trading volume). In the event of an unfulfilled block trade, the trade will be allocated using an alphabetical/reverse alphabetical policy. The advisor will allocate the shares according to the alphabetical order of client accounts. Upon the next occurrence of an unfulfilled block trade, the advisor will allocate the shares in reverse alphabetical order of client accounts. Salem believes that this practice will ensure that all client accounts are treated equally over time.

Salem's transactions in a client account may occasionally result in a trade error in a client's account. In the event that a trade error does occur, Salem will seek to rectify the trade error immediately with the executing broker and/or custodian. If the trade error results in a financial loss for the client, Salem will pay the full amount of the loss on behalf of the client. If the trade error results in a financial gain for the client, Salem allows the client to keep the gain in his or her account.

Item 13 – Review of Accounts

The advisors at Salem routinely review client accounts. These reviews occur on a monthly, weekly or sometimes daily basis. In general, the matters reviewed are those pertinent to the account including asset allocation, cash requirements and account holdings. All accounts receive statements of all transactions and holdings in the account from the account custodian on a monthly or quarterly basis.

Salem provides written reports to clients quarterly, semi-annually or annually. These reports may occur in conjunction with an in-person meeting with the client. All advisors at Salem are available to talk or meet with clients at the client's discretion.

The following individuals serve as advisors for Salem Investment Counselors:

David B. Rea

David received his J.D. degree from Wake Forest University School of Law in 1979 and in 1981 he earned his M.B.A. degree from Indiana University. He is a graduate of Wabash College in Crawfordsville, Indiana. David became a CPA in 1982 and was employed as a senior tax accountant at Deloitte, Haskins & Sells prior to joining Salem in 1984. In 1987 David was awarded the Chartered Financial Analyst designation. He has been active in the Clemmons and Winston-Salem communities and has served on numerous boards and community organizations.

Dale M. Brown

Dale is a graduate of the University of North Carolina School of Business and School of Law where he was a member of Phi Beta Kappa and the Order of the Coif. He became a Certified Public Accountant in 1981 and a member of the North Carolina State Bar in 1979. Dale worked for Deloitte, Haskins and Sells from September 1979 to December 1987 where he was a designated specialist in qualified retirement plans and estate planning. In January 1988, Dale joined Salem where he specializes in fixed income securities and portfolio management. He earned the Chartered Financial Analyst designation in 1990. Dale is a past member of the Board of Trustees of Wake Forest University Baptist Hospital.

Jeffrey C. Howard

After graduating with honors from Duke University in 1976, Jeff earned his J.D. degree at the University of Tulsa College of Law. Following law school, he served as a judicial clerk to United States District Judge Franklin T. Dupree, Jr. Jeff went on to become a partner at one of the premier national law firms, Kilpatrick Townsend & Stockton, L.L.P., before he joined Salem in January 1996. He is a past President of the Young Lawyers Division of the North Carolina Bar Association and he has served as President of the Parents' Association and Chairman of the Board of Trustees of Forsyth Country Day School. He was President of the Duke Alumni Association Board of Directors from 2012-2014, a member of the Duke University Board of Trustees from 2011 to 2015 and Chair of the Piedmont Hospice and Palliative Care Foundation Board of Directors (2009-2011). He is the founder and past President of The First Tee of the Triad, a chapter of the national organization designed to foster character development and life skills in kids through the game of golf.

J.F. Goins III

Ted is a 1988 graduate from the University of North Carolina at Chapel Hill with a double major in Economics and History. Since 1991 he has served several regional brokerage firms as an analyst, institutional salesman and client manager. Ted's primary emphasis has been small cap equity analysis. Ted is an active volunteer and board participant with several local non-profit organizations.

Kenneth S. Jones

Ken received his MBA in 1980 from the University of Chicago, graduating *cum laude* with concentrations in finance and accounting. He received his undergraduate degree from Duke University in 1978, graduating *magna cum laude*, with honors in economics. He joined Salem in 2000 after twenty years practicing accounting with a concentration in tax and financial planning. Ken was awarded the Certified Public Accountant designation in 1982. In 1995 he was awarded the Personal Financial Specialist designation by the American Institute of Certified Public Accountants and he earned the Chartered Financial Analyst designation in 2003. Ken has been active in the community, including being chairman of several church finance committees.

George “Kip” Keener

Kip is a 2002 graduate of the Wake Forest School of Law and member of the North Carolina Bar. Kip received his undergraduate degrees from Hampden-Sydney College in 1999, graduating *summa cum laude* with honors in Political Science and Psychology. Since joining Salem, Kip has helped develop financial models for equity valuation and asset allocation models for client accounts. Kip serves as the firm’s Chief Compliance Officer, directing all firm policies and procedures.

Mark I. Thompson

Mark received his MBA degree from Wake Forest University’s Babcock Graduate School of Management in 1983 with concentrations in finance and investments. He received his undergraduate degree from the University of North Carolina at Chapel Hill in 1974, majoring in Political Science. Prior to joining Salem in 2006 as a Vice President, Mark held senior relationship management positions for 20 years with specialized wealth advisory and family office firms, Wachovia Capital Management and Atlantic Trust Private Wealth Management, serving all aspects of client families’ financial management needs. At both firms, Mark assumed the fixed income coordinator’s role in the areas of fixed income strategies, management and trading. Mark has remained active in various leadership and board activities in the Winston-Salem community throughout his professional career.

Joe McCaffrey

Joe graduated from Harvard University in 2002 and earned his MBA in 2010 from Duke University’s Fuqua School of Business. From 2005 to 2015, Joe served as Managing Director of Research and Insights at the Advisory Board Company, a healthcare consultancy based in Washington, D.C., where he provided customized investment guidance to hospitals and healthcare systems worldwide. Joe’s areas of expertise include strategic investment planning, capital prioritization, operating margin preservation, and growth and market share performance. Joe joined Salem in 2015 where he specializes in portfolio management and equity analysis.

Lyn Williams

Lyn received his undergraduate degree from North Carolina State University in 2002 and in 2004 earned a Master's degree in Trust and Investment Management from Campbell University. In 2009, Lyn received his MBA from Wake Forest University. From 2004 to 2016, Lyn was employed with Wells Fargo, and its predecessor Wachovia Bank, providing wealth management services to high net worth individuals and families. In 2011, Lyn earned the Certified Trust and Financial Advisor Designation. Lyn joined Salem in 2016 where he specializes in portfolio management and equity analysis. He is active in the Winston-Salem community serving on a number of boards and community organizations.

J. Joyner Edmundson, Jr.

Joyner graduated from the University of North Carolina at Chapel Hill with honors in economics in 1992 and a master of accounting in 1993. He earned an MBA with distinction from Wake Forest University in 1998. Before joining Salem, Joyner was a portfolio manager at Abbot Downing, a Wells Fargo business, providing wealth management services to ultra-high net worth families for 11 years. Joyner has over 20 years of investment experience, including positions in portfolio management, fixed income, investment banking, and public accounting. He became a Certified Public Accountant in 1994 and earned the Chartered Financial Analyst designation in 1999. Joyner is an active volunteer in the community.

Item 14 – Client Referrals and Other Compensation

Salem does not have any arrangements with any third parties under which it receives an economic benefit for providing advisory services to a client. Salem does not have any arrangement which provides compensation to a third party for client referrals.

Item 15 – Custody

Salem utilizes qualified, third-party custodians for all of its brokerage accounts. Salem does not physically custody assets or provide proprietary reporting on any client account. All of Salem's clients receive statements from the custodian of their account that details transactions, holdings, asset pricing and asset allocation on a monthly basis. Trading and transactional confirmations are sent immediately upon the transaction's completion by the custodian directly to the client. These monthly statements and confirmations may be sent by hard copy via U.S. postal service or electronically to the client depending on what the client has specified as his or her desired method of communication with his or her custodian.

Under current regulations, Salem is deemed to take custody of client assets in the manner that it facilitates account maintenance and/or money movement on behalf of clients. Salem routinely facilitates client requests for money movement using wires and standing authority for check and ACH disbursements. Salem has adopted a custodial policy that details the circumstance and custodians that Salem deems grant it custody of client assets. Salem has contracted with Dixon Hughes Goodman LLP for an annual surprise audit review for all accounts where Salem is deemed to have custody in order to conform to applicable securities rules and regulations.

As a part of our services to clients, Salem does offer clients the option to have the investment advisory fee debited directly from the client account. For those clients that select this option, Salem directs the custodian to debit the fees according to our normal billing practice as described in detail in Item 5.

Item 16 – Investment Discretion

Salem receives discretionary authority from the client at the outset of an advisory relationship in the Investment Advisor agreement signed the client and Salem. This authority includes the ability to do the following without contacting the client:

- 1) Determine the security to buy or sell;
- 2) Determine the amount of the security to buy or sell; and /or
- 3) Determine the broker to be used and the commission rates to be paid.

For investments (such as mutual funds and exchange traded funds) that charge annual expense fees, Salem will always prioritize using an investment option that charges the lowest expense fee to the client.

In all cases, however, such discretion is to be exercised in a manner consistent with the investment objectives of the particular client account.

When selecting securities for a client account, the advisors at Salem observe the asset allocation agreement and any limitations or restrictions placed on the account by the client.

Salem will facilitate private investments for interested clients. Although Salem does not have discretion over these types of assets, Salem does provide transactional, monitoring and review services for clients with respect to these investments.

Item 17 – Voting Client Securities

As a part of its discretionary authority, Salem manages all proxy matters for clients. The Chief Compliance Officer reviews all proxies and votes them according to the perceived best interest of the client. If the client wishes to direct the voting of a particular proxy, Salem will follow the client's directions for the account.

In cases where Salem is aware of a conflict between the interests of a client and the interests of Salem or an affiliated person of Salem, Salem will always vote the proxies in the best interest of the client, unless Salem notifies a client of such conflict and obtains a written consent from the client acknowledging the conflict and waiving the objection.

Clients may direct the voting of proxies for their account by putting their wishes in writing and sending them to the advisor. Clients may also request a copy of Salem's proxy voting record by sending a written request to the advisor or Chief Compliance Officer.

Item 18 – Financial Information

Registered Investment Advisors are required in this Item to provide clients with certain financial information or disclosures about Salem's financial condition. Salem has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.