



**Brightwater**  
**Advisory<sup>®</sup>**

*A Registered Investment Adviser*

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This Wrap Fee Program Brochure (“Brochure”) provides information about the qualifications and business practices of Brightwater Advisory, LLC (hereinafter, “Brightwater” or the “Firm”). If you have any questions about the contents of this Brochure, please contact the Firm at the telephone number listed above. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Additional information about the Firm is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The Firm is a registered investment adviser. Registration does not imply any level of skill or training.

## **Item 2. Material Changes**

In this Item, Brightwater is required to discuss any material changes that have been made to the Brochure since the last annual amendment dated March 23, 2020. The Firm does not have any material changes to disclose.

Please note that other changes were made to this Brochure, which are not discussed in this summary. Consequently, we encourage you to read the Brochure in its entirety.

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## Item 4. Advisory Business

The Brightwater Advisory Wrap Fee Program (the “Program”) is an investment advisory program sponsored by Brightwater. In addition to the Program, the Firm offers a variety of advisory services, which include financial planning, consulting, and investment management services under different arrangements than those described herein. Prior to Brightwater rendering any of the foregoing advisory services, clients are required to enter into one or more written agreements (the “Advisory Agreement”) with Brightwater setting forth the relevant terms.

Brightwater was formed in October 2013 and is wholly owned by David C. Maddux, Jr. and Kathleen N. Maddux. As of December 31, 2020, Brightwater had \$194,509,708 of assets under management, \$186,202,729 of which was managed on a discretionary basis and \$8,306,979 of which was managed on a non-discretionary basis.

While this Brochure generally describes the business of Brightwater, certain sections also discuss the activities of its Supervised Persons, which refer to the Firm’s officers, partners, directors (or other persons occupying a similar status or performing similar functions), employees or any other person who provides investment advice on Brightwater’s behalf and is subject to the Firm’s supervision or control.

### Description of the Program

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The Program is offered as a wrap fee program, which provides clients with the ability to trade in certain investment products without incurring separate brokerage commissions or transaction charges. A wrap fee program is considered any arrangement under which clients receive investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisers) and the execution of client transactions for a specified fee or fees not based upon transactions in their accounts. Clients must also open a new securities brokerage account and complete a new account agreement with Schwab Advisor Services™ (“Schwab”) or another broker-dealer that Brightwater approves under the Program (collectively “Financial Institutions”).

At the onset of the Program, clients complete an investor profile describing their individual investment objectives, liquidity and cash flow needs, time horizon and risk tolerance, as well as any other factors pertinent to their specific financial situations. After an analysis of the relevant information, Brightwater assists its clients in developing an appropriate strategy for managing their assets. Clients’ investment portfolios are generally managed on a discretionary or non-discretionary basis by Brightwater’s investment adviser representatives. Brightwater generally allocates clients’ assets among the various investment products available under the Program, as described further in Item 6 (below).

## **Fees for Participation in the Program**

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The Program is offered on a fee basis, meaning participants pay a single annualized fee based upon assets under management (“Program Fee”).

This Program Fee generally varies between 100 and 150 basis points (1.00 % – 1.50 %) in accordance with the following blended fee schedule:

<b><u>PORTFOLIO VALUE</u></b>	<b><u>BASE FEE</u></b>
First \$500,000	1.50%
Above \$500,000	1.00%

The annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by Brightwater on the last day of the previous billing period.

If assets in excess of \$25,000 are deposited into or withdrawn from an account after the inception of a billing period, the fee payable with respect to such assets is adjusted to reflect the interim change in portfolio value. For the initial period of an engagement, the fee is calculated on a pro rata basis. In the event the Advisory Agreement is terminated, the fee for the final billing period is prorated through the effective date of the termination and the outstanding or unearned portion of the fee is charged or refunded to the client, as appropriate.

## **Fee Comparison**

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As referenced above, a portion of the fees paid to Brightwater are used to cover certain securities brokerage commissions and transactional costs attributed to the management of its clients’ portfolios. Services provided through the Program may cost clients more or less than purchasing these services separately. The number of transactions made in clients’ accounts, as well as the commissions charged for each transaction, determines the relative cost of the Program versus paying for execution on a per transaction basis and paying a separate fee for advisory services. Fees paid for the Program may also be higher or lower than fees charged by other sponsors of comparable investment advisory programs. Because the Firm pays for the brokerage fees, the Firm has an incentive to engage in less transactions, or transactions that cost less to the Firm, including the use of mutual funds that do not have transaction charges, but have higher expenses to the client. The Firm reviews the frequency and type of investments made in client accounts to act in the client’s best interest.

## **Fee Discretion**

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Brightwater, in its sole discretion, may negotiate to charge a lesser fee based upon certain criteria, such as anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing/legacy client relationship, account retention and pro bono activities.

## **Other Charges**

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In addition to the advisory fees paid to Brightwater, clients may also incur certain charges imposed by other third parties, such as broker-dealers, custodians, trust companies, banks and other financial institutions. These additional charges may include fees attributable to alternative assets, reporting charges, margin costs, charges imposed directly by a mutual fund or ETF in a client's account, as disclosed in the fund's prospectus (e.g., fund Program Fees and other fund expenses), fees and commission for assets not held with Schwab (such as 401(k) or 529 plan assets), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees.

## **Direct Fee Debit**

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In addition to the advisory fees paid to Brightwater, clients may also incur certain charges imposed by other third parties, such as broker-dealers, custodians, trust companies, banks and other financial institutions. These additional charges may include fees attributable to alternative assets, reporting charges, margin costs, charges imposed directly by a mutual fund or ETF in a client's account, as disclosed in the fund's prospectus (e.g., fund Program Fees and other fund expenses), fees and commission for assets not held with the Financial Institutions offered in the Program such as 401(k) or 529 plan assets as well as for fees for trades executed away from that Financial Institution (a conflict of interest exists where the Firm avoids expenses by trading through a different Financial Institution), mark-ups and mark-downs on fixed-income transactions which cannot be paid by the Firm (or it is overly burdensome to determine the amount of such mark-ups / downs), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

## **Account Additions and Withdrawals**

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Clients may make additions to and withdrawals from their account at any time, subject to Brightwater's right to terminate an account. Additions may be in cash or securities provided that the Firm reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to Brightwater, subject to the usual and customary securities settlement procedures. However, Brightwater designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. Brightwater

may consult with its clients about the options and implications of transferring securities. Clients are advised that when transferred securities are liquidated, they may be subject to transaction fees, fees assessed at the mutual fund level (e.g., contingent deferred sales charge) and/or tax ramifications.

## **Compensation for Recommending the Program**

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Brightwater has no internal arrangements in place whereby persons recommending the Program are entitled to receive additional compensation as a result of clients' participation. A person recommending the Program will not earn more compensation than he or she would otherwise receive if a client elected another investment management program.

## **Item 5. Account Requirements and Types of Clients**

Brightwater offers services to individuals, high net worth individuals, charitable organizations, pension and profit sharing plans and corporations and business entities.

### **Minimum Account Requirements**

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Brightwater does not impose a stated minimum fee or minimum portfolio value for starting and maintaining an investment management relationship.

## **Item 6. Portfolio Manager Selection and Evaluation**

Brightwater acts as the sponsor and sole portfolio manager under the Program.

### **Investment and Wealth Management Services**

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Brightwater manages client investment portfolios on a discretionary or non-discretionary basis through the Program. In addition, Brightwater provides certain clients with wealth management services which includes discretionary and/or non-discretionary management of investment portfolios, as well as certain financial planning and consulting services (as described below).

In managing client portfolios, Brightwater primarily allocates client assets among various mutual funds, exchange-traded funds ("ETFs"), individual debt and equity securities, and/or certificates of deposit in accordance with their stated investment objectives.

Where appropriate, the Firm also provides advice about any type of legacy position or other investment held in client portfolios. Clients can engage Brightwater to manage and/or advise on certain investment products that are not maintained at their primary custodian, such as variable life insurance and annuity

contracts and assets held in employer sponsored retirement plans and qualified tuition plans (i.e., 529 plans). In these situations, Brightwater directs or recommends the allocation of client assets among the various investment options available with the product. These assets are generally maintained at the underwriting insurance company or the custodian designated by the product's provider.

Brightwater tailors its investment management services to meet the needs of its individual clients and seeks to ensure, on a continuous basis, that client portfolios are managed in a manner consistent with those needs and objectives. Brightwater consults with clients on an initial and ongoing basis to assess their specific risk tolerance, time horizon, liquidity constraints and other related factors relevant to the management of their portfolios. Clients are advised to promptly notify Brightwater if there are changes in their financial situation or if they wish to place any limitations on the management of their portfolios. Clients can impose reasonable restrictions or mandates on the management of their accounts if Brightwater determines, in its sole discretion, the conditions would not materially impact the performance of a management strategy or prove overly burdensome to the Firm's management efforts.

## **Financial Planning and Consulting Services**

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As set forth above, Brightwater offers clients a broad range of financial planning and consulting services through the Program, which include any or all of the following functions:

- Business Planning;
- Cash Flow Forecasting;
- Trust and Estate Planning;
- Financial Reporting;
- Investment Consulting
- Insurance Planning;
- Retirement Planning;
- Risk Management;
- Charitable Giving;
- Distribution Planning;
- Tax Planning; and
- Manager Due Diligence.

In performing these services, Brightwater is not required to verify any information received from the client or from the client's other professionals (e.g., attorneys, accountants, etc.) and is expressly authorized to rely on such information. Brightwater recommends certain clients engage the Firm for additional related service and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists for the Firm to recommend that clients engage Brightwater or its affiliates to provide (or continue to provide) additional services for compensation, including investment management services. Clients retain absolute discretion over all decisions regarding implementation and are under no obligation to act upon any of the recommendations made by Brightwater. Clients are advised that it remains their responsibility to promptly notify the Firm of any change in their financial situation or investment objectives for the purpose of reviewing, evaluating or revising Brightwater's recommendations and/or services.



## Side-By-Side Management

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Brightwater does not provide any services for a performance-based fee (i.e., a fee based on a share of capital gains or capital appreciation of a client's assets).

## Methods of Analysis

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Brightwater's primary method of analysis is fundamental in nature. Fundamental analysis involves assessing valuation metrics, the economic and political conditions that affect the overall trends of the markets. Brightwater analyzes macroeconomic and political factors that it believes may influence market trends—such as whether the economy is expanding or contracting, inflation levels and trends, changes in tax policy, and Fed monetary policy decisions.

Brightwater utilizes technical analysis on a more limited basis, technical analysis involves assessing trends, such as the analysis of whether the stock market is trending up or down. This assessment, along with client investment objectives and time horizons, can influence the decision to make tactical changes to asset allocation in client portfolios. Brightwater's analysis of whether interest rates are trending up or down is also used in making tactical changes in asset allocation, as well as average bond market maturities and duration in client portfolios.

## Investment Strategies

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Brightwater's wealth management process is based on our core philosophy of finding value opportunities, both relative and absolute, under all market conditions, while still embracing the simplest and basic concept of risk reduction – diversification.

Each portfolio is invested based on the client's individual needs, as determined by Brightwater through initial and ongoing consultations to gain an understanding of the client's objectives for growth and income, risk sensitivity, level of knowledge, understanding and investment experience.

Brightwater has developed model portfolios for each of its investment strategies that blend various asset classes and sleeves (i.e., buckets or silos) of asset classes together for general risk profiles. Some sleeves use index funds to achieve broad exposure to an asset class, while other sleeves have an active security selection and management component to them. Our process for constructing our model portfolios is a combination of:

- Top-down asset allocation that is influenced and guided by outside research providers;
- Bottom-up security or fund selection that is based on quantitatively driven value metrics; and

- Risk management overlay on the targeted portfolio allocation, which is based upon current and expected market conditions and which is designed to allow for a minor portion of the portfolio to directly affect the overall expected volatility of the portfolio by investing in equity ETFs to increase the expected volatility or using short-term bonds or cash to somewhat reduce the expected volatility.

Top-down investing involves analyzing the “big picture” to determine the health of the economy and to forecast which industries will generate the best returns. The top-down allocation weightings are directly influenced by research providers such as Ned Davis Research ([www.ndr.com](http://www.ndr.com)), among others, the focus of which is a balanced measure of fundamental, quantitative and technical factors around asset classes against a strategic benchmark. Our bottom-up selection of individual stocks is primarily driven by quantitative value metrics using fundamental data provided by Morningstar.

Both traditional technical analysis of chart patterns and quantitatively derived trend assessment are used when attempting to optimize a buy or a sell, as well as the size of the total position within the model. Our investment models may be used in varying combinations over time for a given client, depending upon the client’s individual circumstances.

Utilizing various investment types (e.g., common stocks, individual bonds, mutual funds, ETFs, etc.), Brightwater may invest in the following asset classes, without limitation:

- Bonds, which includes sub-categories such as treasuries, municipals, corporates, mortgage-backed securities, high yield, bank notes and international bonds;
- Equities, which includes sub-categories such as large, mid and small capital US stocks, international stocks and emerging markets stocks;
- Preferred Stocks;
- Real Estate Investment Trusts;
- Master Limited Partnerships;
- Commodities;
- Alternatives; and
- Cash.

Brightwater strives to maintain the client’s target allocation within a range of 15% above the target for equities (up to 100%) and 25% below the target weighting for equities. In some market environments, Brightwater may decide to temporarily hold much less than 25% below the target in equities in client accounts, if Brightwater’s assessment warrants a need to reduce risk and focus on preservation of capital.

Brightwater primarily engages in long-term investing. This means securities are purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year. However, in certain instances, short-term purchases of securities may be made with the expectation of selling them within a relatively short period of time, generally less than one year, to take advantage of the securities’ short term price fluctuations.

## **Risk of Loss**

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All investing and trading activities risk the loss of capital. Although we will attempt to moderate these risks, no assurance can be given that the investment activities of an account we advise will achieve the investment objectives of such account or avoid losses. Direct and indirect investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate you from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance. It is important that you understand the risks associated with investing in the types of investments and strategies listed above.

Except as may otherwise be provided by law, we are not liable to clients for:

- Any loss that you may suffer by reason of any investment decision made or other action taken or omitted by us in good faith;
- Any loss arising from our adherence to your instructions or the disregard of our recommendations made to you; or
- Any act or failure to act by a custodian or other third party to your account.

The information included in this Brochure does not include every potential risk associated with an investment strategy, technique or type of security applicable to a particular client account. You are encouraged to ask questions regarding risks applicable to a particular strategy or investment product and read all product-specific risk disclosures. It is your responsibility to give us complete information and to notify us of any changes in financial circumstances or goals.

There are certain additional risks associated when investing in securities; including, but not limited to:

- Market Risk: Either the stock market as a whole, or the value of an individual company or fund, goes down resulting in a decrease in the value of client investments. This is also referred to as systemic risk.
- Legal and Regulatory Risks: The regulation of the U.S. and non-U.S. securities and futures markets has undergone substantial change in recent years and such change may continue. In particular, in light of the recent market turmoil there have been numerous proposals, including bills that have been introduced in the U.S. Congress, for substantial revisions to the regulation of financial institutions generally. Some of the additional regulation includes requirements that private fund managers register as investment advisers

under the Advisers Act and disclose various information to regulators about the positions, counterparties and other exposures of the private funds managed by such managers. Further, the practice of short selling has been the subject of numerous temporary restrictions, and similar restrictions may be promulgated at any time. Such restrictions may adversely affect the returns of Underlying Investment Funds that utilize short selling. The effect of such regulatory change on the accounts and/or the underlying investment funds, while impossible to predict, could be substantial and adverse.

- **Inflation Risk:** When inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation. The Firm's portfolios face inflation risk, which results from the variation in the value of cash flows from a financial instrument due to inflation, as measured in terms of purchasing power.
- **Market or Interest Rate Risk:** The price of most fixed income securities move in the opposite direction of the change in interest rates. For example, as interest rates rise, the prices of fixed income securities fall. If the Firm holds a fixed income security to maturity, the change in its price before maturity may have little impact on the Firm portfolios' performance. However, if the Firm determines to sell the fixed income security before the maturity date, an increase in interest rates could result in a loss.
- **Market Volatility:** The profitability of the portfolios substantially depends upon the Firm correctly assessing the future price movements of stocks, bonds, options on stocks, and other securities and the movements of interest rates. The Firm cannot guarantee that it will be successful in accurately predicting price and interest rate movements.
- **Material Non-Public Information:** By reason of their responsibilities in connection with other activities of the Firm and/or its principals or employees, certain principals or employees of the Firm and/or its affiliates may acquire confidential or material non-public information or be restricted from initiating transactions in certain securities. The Firm will not be free to act upon any such information. Due to these restrictions, the Firm may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell an investment that it otherwise might have sold.
- **Accuracy of Public Information:** The Firm selects investments, in part, on the basis of information and data filed by issuers with various government regulators or made directly available to the Firm by the issuers or through sources other than the issuers. Although the Firm evaluates all such information and data and sometimes seeks independent corroboration when it's considered appropriate and reasonably available, the Firm is not in a position to confirm the completeness, genuineness, or accuracy of such information and data. In some cases, complete and accurate information is not available.

- Trading Limitations: For all securities, instruments and/or assets listed on an exchange, including options listed on a public exchange, the exchange generally has the right to suspend or limit trading under certain circumstances. Such suspensions or limits could render certain strategies difficult to complete or continue and subject the account to loss. Also, such a suspension could render it impossible for the Firm to liquidate positions and thereby expose the Client account to potential losses.
- Recommendation of Particular Types of Securities: In some cases, the Firm recommends mutual funds. There are several risks involved with these funds. These funds have portfolio managers that trade the fund's investments in agreement with the fund's objective and in line with the fund prospectus. While these investments generally provide diversification there are some risks involved especially if the fund is concentrated in a particular sector of the market, uses leverage, or concentrates in a certain type of security (i.e., foreign equities). The returns on mutual funds can be reduced by the costs to manage the funds. And the shares rise and fall in value according to the supply and demand. Open end funds may have a diluted effect on other investors' interest due to the structure of the fund while closed end funds have limited shares which rise and fall in value according to supply and demand in the market. In addition, closed end funds are priced daily and as a result they may trade differently than the daily net asset value (NAV).
- Firm's Investment Activities: The Firm's investment activities involve a significant degree of risk. The performance of any investment is subject to numerous factors which are neither within the control of nor predictable by the Firm. Such factors include a wide range of economic, political, competitive and other conditions (including acts of terrorism and war) that may affect investments in general or specific industries or companies. The markets may be volatile, which may adversely affect the ability of the Firm to realize profits on behalf of its Clients. As a result of the nature of the Firm's investing activities, it is possible that the Firm's results may fluctuate substantially from period to period.
- Equity (Stock) Market Risk: Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. If you held common stock, or common stock equivalents, of any given issuer, you would generally be exposed to greater risk than if you held preferred stocks and debt obligations of the issuer.
- Company Risk: When investing in stock positions, there is always a certain level of company or industry specific risk that is inherent in each investment. This is also referred to as unsystematic risk and can be reduced through appropriate diversification. There is the risk that the company will perform poorly or have its value reduced based on factors specific to the company or its industry. For example, if a company's employees go on strike or the company receives unfavorable media attention for its actions, the value of the company may be reduced.

- Risks Associated with Fixed Income: When investing in fixed income instruments such as bonds or notes, the issuer may default on the bond and be unable to make payments. Further, interest rates may increase and the principal value of your investment may decrease. Individuals who depend on set amounts of periodically paid income face the risk that inflation will erode their spending power.
- ETF and Mutual Fund Risk: When investing in an Exchange-Traded Fund (ETF) or mutual fund, a client will bear additional expenses based on the client's pro rata share of the ETF's or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. Clients may incur brokerage costs when purchasing or selling ETFs.
- Options Risk: Options on securities may be subject to greater fluctuations in value than an investment in the underlying securities. Purchasing and writing put and call options are highly specialized activities and entail greater than ordinary investment risks.
- Liquidity Risk: Certain assets may not be readily converted into cash or may have a very limited market in which they trade. Thus, you may experience the risk that your investment or assets within your investment may not be able to be liquidated quickly, thus, extending the period of time by which you may receive the proceeds from your investment. Liquidity risk can also result in unfavorable pricing when exiting (i.e. not being able to quickly get out of an investment before the price drops significantly) a particular investment and therefore, can have a negative impact on investment returns.
- Management Risk: Your investments will vary with the success and failure of our investment strategies, research, analysis and determination of portfolio securities. If you implement our financial planning recommendations and our investment strategies do not produce the expected results, you may not achieve your objectives.
- Reinvestment Risk: This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e., interest rate). This primarily relates to bonds.
- Call Risk: Bonds that are callable carry an additional risk because they may be called prior to maturity depending on current interest rates thereby increasing the likelihood that reinvestment risk may be realized.
- Credit Risk: The price of a bond depends on the issuer's credit rating, or perceived ability to pay its debt obligations. Consequently, increases in an issuer's credit risk, may negatively impact the value of a bond investment.

- **Speculation Risk:** The securities markets are populated by traders whose primary interest is in making short-term profits by speculating whether the price of a security will go up or go down. The speculative actions of these traders may increase market volatility that could drive down the prices of securities.
- **Geopolitical Risk:** The risk an investment's returns could suffer as a result of political changes or instability in a country. Instability affecting investment returns could stem from a change in government, legislative bodies, other foreign policy makers or military control.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Foreign Market Risk:** The securities markets of many foreign countries, including emerging countries, have substantially less trading volume than the securities markets of the United States, and securities of some foreign companies are less liquid and more volatile than securities of comparable United States companies. As a result, foreign securities markets may be subject to greater influence by adverse events generally affecting the market, by large investors' trading significant blocks of securities, or by large dispositions of securities, than as it is in the United States. The limited liquidity of some foreign markets may affect our ability to acquire or dispose of securities at a price and time it believes is advisable. Further, many foreign governments are less stable than that of the United States. There can be no assurance that any significant, sustained instability would not increase the risks of investing in the securities markets of certain countries.
- **Counterparty and Broker Credit Risk:** Certain assets will be exposed to the credit risk of the counterparties when engaging in exchange-traded or off-exchange transactions. There may be a risk of loss of assets on deposit with or in the custody of a broker in the event of the broker's bankruptcy, the bankruptcy of any clearing broker through which the broker executes and clears transactions, or the bankruptcy of an exchange clearinghouse.
- **Leverage Risk:** Brightwater does employ leverage in the implementation of its investment strategies. In addition, some ETFs and CEFs also employ leverage. Leverage increases returns to investors if the investment strategy earns a greater return on leveraged investments than the strategy's cost of such leverage. Although it is not Brightwater's strategy to incur margin, Brightwater will do so when directed by a client; however, the use of leverage exposes investors to additional levels of risk and loss that could be substantial.

### **Voting Client Securities**

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Brightwater accepts the authority to vote a client's securities (i.e., proxies) on their behalf. When Brightwater accepts such responsibility, it will only cast proxy votes in a manner consistent with the best interest of its clients. Absent special circumstances, which are fully- described in Brightwater's Proxy

Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in Brightwater's Proxy Voting Policies and Procedures, as they may be amended from time-to-time. Clients may contact Brightwater to request information about how Brightwater voted proxies for that client's securities or to get a copy of Brightwater's Proxy Voting Policies and Procedures. A brief summary of Brightwater's Proxy Voting Policies and Procedures is as follows:

- Brightwater has formed a Proxy Voting Committee that will be responsible for monitoring corporate actions, making voting decisions in the best interest of clients, and ensuring that proxies are submitted in a timely manner.
- The Proxy Voting Committee will generally vote proxies according to Brightwater's then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including: composition of the board of directors; approval of independent auditors; management and director compensation; anti-takeover mechanisms and related issues; changes to capital structure; corporate and social policy issues; and issues involving mutual funds.
- Although the Proxy Voting Guidelines are followed as a general policy, certain issues are considered on a case-by-case basis based on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, Brightwater devotes an appropriate amount of time and resources to monitor these changes.
- Clients cannot direct Brightwater's vote on a particular solicitation but can revoke Brightwater's authority to vote proxies.

In situations where there may be a conflict of interest in the voting of proxies due to business or personal relationships that Brightwater maintains with persons having an interest in the outcome of certain votes, Brightwater takes appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

### **Item 7. Client Information Provided to Portfolio Managers**

In this Item, Brightwater is required to describe the type and frequency of the information it communicates to the Independent Managers, if any, managing its clients' investment portfolios. Brightwater acts as the sole portfolio manager under the Program and, as such, the Firm has no information to disclose in relation to this Item.



## **Item 8. Client Contact with Portfolio Managers**

In this Item, Brightwater is required to describe any restrictions on clients' ability to contact and consult with the portfolio managers managing their investment portfolios. There are no restrictions on clients' ability to correspond with Brightwater, which acts as the sole portfolio manager under the Program.

## **Item 9. Additional Information**

### **Disciplinary Information**

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Brightwater has not been involved in any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of its management.

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

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This item requires investment advisers to disclose certain financial industry activities and affiliations.

### **Morningstar Advisory Board**

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David C. Maddux, Jr., Principal of the Firm, serves on an advisory board of Morningstar, Inc., ("Morningstar"), a provider of investment research and investment management services. In this capacity, he participates in occasional in-person and telephonic meetings to advise Morningstar on the development of products and services it offers to investment professionals. As part of this arrangement, David C. Maddux, Jr. receives a stipend for travel expenses incurred for in-person meetings, as well as registration for the annual Morningstar Investment Conference. As a result, a conflict of interest exists to the extent Brightwater recommends the products and services of Morningstar to its clients and to the extent that Brightwater utilizes the products and services of Morningstar in its management of client accounts. The Firm seeks to ensure all recommendations are made in its clients' best interest regardless of any such affiliations. In addition, the Firm reviews all vendor relationships on an ongoing basis in an effort to ensure it is receiving competitive rates in relation to the quality and scope of the services provided.

### **Code of Ethics**

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Brightwater has adopted a code of ethics in compliance with applicable securities laws ("Code of Ethics") that sets forth the standards of conduct expected of its Supervised Persons. Brightwater's Code of Ethics contains written policies reasonably designed to prevent certain unlawful practices such as the use of material non-public information by the Firm or any of its Supervised Persons and the trading by the same of securities ahead of clients in order to take advantage of pending orders.

The Code of Ethics also requires certain of Brightwater's personnel to report their personal securities holdings and transactions and obtain pre-approval of certain investments (*e.g.*, initial public offerings, limited offerings). However, the Firm's Supervised Persons are permitted to buy or sell securities that it also recommends to clients if done in a fair and equitable manner that is consistent with the Firm's policies and procedures. This Code of Ethics has been established recognizing that some securities trade in sufficiently broad markets to permit transactions by certain personnel to be completed without any appreciable impact on the markets of such securities. Therefore, under limited circumstances, exceptions may be made to the policies stated below.

When the Firm is engaging in or considering a transaction in any security on behalf of a client, no Supervised Person with access to this information may knowingly effect for themselves or for their immediate family (*i.e.*, spouse, minor children and adults living in the same household) a transaction in that security unless:

- the transaction has been completed;
- the transaction for the Supervised Person is completed as part of a batch trade with clients;  
or
- a decision has been made not to engage in the transaction for the client.

These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact Brightwater to request a copy of its Code of Ethics.

### **Account Reviews**

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For those clients to whom Brightwater provides investment management services, Brightwater monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. In addition, Brightwater will meet with clients in person or on the phone at least annually, to discuss changes in their current or future financial condition, to review their investment objectives, asset allocation, holdings, and performance, and to discuss any changes in direction that should be made.

For those clients to whom Brightwater provides investment planning and/or consulting services, reviews are conducted on an "as needed" basis. Reviews are conducted by the investment adviser representatives of Brightwater, David C. Maddux, Jr. and Barry W. Brindise. All clients are encouraged to discuss their needs, goals, and objectives with Brightwater and to keep Brightwater informed of any changes thereto.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom Brightwater provides investment advisory services will also receive a report from Brightwater that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance on a quarterly basis. Clients should compare the account statements they receive from their custodian with those they receive from Brightwater.

Those clients to whom Brightwater provides consulting services will receive reports from Brightwater summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by Brightwater.

## **Account Statements and General Reports**

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Clients are provided with transaction confirmation notices and regular summary account statements directly from the Financial Institutions where their assets are custodied. From time-to-time or as otherwise requested, clients may also receive written or electronic reports from Brightwater and/or an outside service provider, which contain certain account and/or market-related information, such as an inventory of account holdings or account performance. Clients should compare the account statements they receive from their custodian with any documents or reports they receive from Brightwater or an outside service provider.

## **Client Referrals**

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The Firm does not currently provide compensation to any third-party solicitors for client referrals.

## **Receipt of Economic Benefit and Brokerage Practices**

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Brightwater may receive from Schwab, without cost to Brightwater, computer software and related systems support, which allow Brightwater to better monitor client accounts maintained at Schwab. Brightwater may receive the software and related support without cost because Brightwater renders investment management services to clients that maintain assets at Schwab. The software and related systems support may benefit Brightwater, but not its clients directly. In fulfilling its duties to its clients, Brightwater endeavors, at all times, to put the interests of its clients first. Clients should be aware, however, that Brightwater's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence Brightwater's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets are maintained in accounts at Schwab Advisor Services. Schwab's services include brokerage services that are related to the execution of securities transactions, custody, research, including that in the form of advice, analyses and reports, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For client accounts maintained in its custody, Schwab generally does not charge separately for custody services but is compensated by account holders through commissions or other transaction-related or asset-based fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Schwab also makes available to the Firm other products and services that benefit the Firm but may not benefit its clients' accounts. These benefits may include national, regional or Firm specific educational events organized and/or sponsored by Schwab. Other potential benefits may include occasional business entertainment of personnel of Brightwater by Schwab personnel, including meals, invitations to sporting events, including golf tournaments, and other forms of entertainment, some of which may accompany educational opportunities. Other of these products and services assist Brightwater in managing and administering clients' accounts. These include software and other technology (and related technological training) that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of the Firm's fees from its clients' accounts, and assist with back-office training and support functions, recordkeeping and client reporting. Many of these services generally may be used to service all or some substantial number of the Firm's accounts, including accounts not maintained at Schwab. Schwab also makes available to Brightwater other services intended to help the Firm manage and further develop its business enterprise. These services may include professional compliance, legal and business consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, employee benefits providers, human capital consultants, insurance and marketing. In addition, Schwab may make available, arrange and/or pay vendors for these types of services rendered to the Firm by independent third parties. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to the Firm. While, as a fiduciary, Brightwater endeavors to act in its clients' best interests, the Firm's recommendation that clients maintain their assets in accounts at Schwab may be based in part on the benefits received and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which creates a potential conflict of interest.

## **Financial Information**

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Brightwater is not required to disclose any financial information due to the following:

- The Firm does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance of services rendered;
- The Firm does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- The Firm has not been the subject of a bankruptcy petition at any time during the past ten years.