



**61 Fletcher Street  
Winchester, MA 01890**

**(781) 729-0962**

**[www.blueheroninfrastructure.com](http://www.blueheroninfrastructure.com)**

**May 2021**

This brochure ("Brochure") provides information about the qualifications and business practices of Blue Heron Infrastructure Corporation (hereinafter "Blue Heron" or the "Firm") and its investment strategies. To request a copy of our Brochure or if you have any additional questions about the contents of this Brochure, please contact Morgan Sanders at (901) 250-6729. 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 Blue Heron is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website also provides information about any of our affiliated persons who are registered, or are required to be registered, as investment adviser representatives of Adviser.

Blue Heron Infrastructure Corporation is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## **Item 2. Material Changes**

This Disclosure Brochure represents the initial filing for Blue Heron Infrastructure Incorporated.

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## **Item 4. Advisory Business**

Blue Heron initially registered with the SEC on or about May 25th, 2021. Blue Heron is a Massachusetts incorporation, shares of which are owned solely by Timothy Pynchon. Blue Heron currently manages 0.00 in discretionary regulatory assets under management.

Blue Heron offers clients investment management services ("*Services*"). Prior to engaging Blue Heron to provide any of the *Services*, the client is required to enter into one or more written agreements with Blue Heron setting forth the terms and conditions under which Blue Heron renders its services (collectively the "*Agreement*").

This Brochure describes the business of Blue Heron. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of Blue Heron's officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on Blue Heron's behalf and is subject to Blue Heron's supervision or control.

### **Investment Management Services**

Blue Heron will manage clients' investment portfolios on a discretionary or non-discretionary basis. The Firm provides these portfolio management services primarily allocating clients' investment assets among tax-exempt and taxable securities with a focus on securities that are rated below investment grade, including unrated securities.

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

Blue Heron offers its services on a fee basis, which may include fixed fees, as well as fees based upon assets under management and in certain situations performance-based compensation.

### **Investment Management Fees**

Blue Heron provides investment management services for an annual fee based upon a percentage of assets under management. Blue Heron's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. Blue Heron does not, however, receive any portion of these commissions, fees, and costs.

Blue Heron's annual fee is prorated and charged quarterly, either in advance or arrears. The fee valuation is based upon the average account value for the last day of the previous three months or the average daily balance for the previous three months. This average is taken from the billing quarter for accounts billed in arrears and from the previous quarter for accounts billed in advance.

The annual fee varies between 40 and 150 basis points (i.e., 0.40% and 1.50%) depending upon the market value of the assets under management and the type of investment or wealth management services to be rendered.

Blue Heron, in its sole discretion, may negotiate to charge a lesser management fee based upon

certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

In connection with certain bond investments made by Blue Heron on behalf of its advisory clients, Blue Heron is the Designated Bondholder Representative which includes monitoring borrowers on an ongoing basis and advising borrowers in the event that borrowers run into financial difficulties. In such cases, Blue Heron generally has special rights, including, but not limited to, the ability to change the bond interest rate, reduce its redemption price, create an equal or priority lien or deprive any owner of a bond of the lien created by the trust indenture. Blue Heron does not receive any additional fees or compensation from clients for acting as a Bondholder Representative. In the event of a workout, select issue closings, or for select variable rate bonds, Blue Heron receives the Bondholder Representative fee from the borrower at the closing of a realization or issue, or on the Interest Payment Date for the fees paid by borrower under the terms.

### **Fees Charged by Financial Institutions**

As further discussed in response to Item 12 (below), Blue Heron generally recommends that clients utilize the brokerage and clearing services of Charles Schwab & Co., Inc. ("*Schwab*") and/or Fidelity Institutional Wealth Services ("*Fidelity*") for investment management accounts. Blue Heron may also recommend clients use Oppenheimer Asset Management or TD Ameritrade for certain separately managed accounts.

Blue Heron may only implement its investment management recommendations after the client has arranged for and furnished Blue Heron with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, *Schwab*, *Fidelity*, any other broker-dealer recommended by Blue Heron, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the "*Financial Institutions*").

Clients may incur certain charges imposed by the *Financial Institutions* such as custodial fees. Clients may also incur transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, for assets outside of any wrap fee programs, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to Blue Heron's fee.

### **Fee Debit**

Blue Heron's *Agreement* and the separate agreement with any *Financial Institutions* may authorize Blue Heron to debit the client's account for the amount of Blue Heron's fee and to directly remit that management fee to Blue Heron as appropriate. Any *Financial Institutions* recommended by Blue Heron have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account, including the amount of management fees paid directly to Blue Heron. Alternatively, clients may elect to have Blue Heron send an invoice for payment.

### **Fees for Management During Partial Periods of Service**

For the initial period of investment management services, the fees are calculated on a *pro rata* basis.

The *Agreement* between Blue Heron and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. Blue Heron's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Clients may make additions to and withdrawals from their account at any time, subject to Blue Heron's right to terminate an account. Additions may be in cash or securities provided that Blue Heron reserves the right to liquidate any transferred securities or decline to accept securities into a client's account. Clients may withdraw account assets on notice to Blue Heron, subject to the usual and customary securities settlement procedures.

However, Blue Heron designs its portfolios as long-term investments, and the withdrawal of assets may impair the achievement of a client's investment objectives. Blue Heron may consult with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees and/or tax ramifications.

For accounts where management fees are based on average daily portfolio value, if assets are deposited into or withdrawn from an account after the inception of a quarter, the fee payable with respect to such assets is adjusted accordingly. For accounts where management fees are based on average month-end values, if assets are deposited into or withdrawn from an account after the inception of a month, the fee payable with respect to such assets is not adjusted or prorated to account for the days remaining in the billing period.

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

Blue Heron may be paid performance-based compensation, which is compensation that is based on a share of capital gains on or capital appreciation of the assets of a client. The performance-based fees are subject to certain preferred return hurdles. These performance-based fees will be negotiated on a case-by-case basis and will be disclosed to the client in the fee schedule agreed to by the client and Blue Heron. The client should be aware that the existence of a performance-based fee structure may create a conflict of interest in that Blue Heron may have an incentive to take a greater degree of risk in order to generate a greater investment return thereby increasing any such performance-based fees.

Additionally, when Blue Heron and its investment personnel manage more than one client account the potential exists for one client account to be favored over another client account. Blue Heron and its investment personnel have a greater incentive to favor client accounts that pay Blue Heron performance-based compensation or higher fees. However, Blue Heron has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple accounts, including accounts with multiple fee arrangements, and the allocation of investment opportunities. Blue Heron reviews investment decisions periodically to assess whether accounts with substantially similar investment objectives are treated equitably. The performance of similarly managed accounts is also compared periodically to determine whether there are any unexplained significant discrepancies. In addition, Blue Heron's procedures relating to the allocation of investment opportunities require that similarly managed accounts participate generally in investment opportunities pro rata based on asset size and

require that, to the extent orders are aggregated, the client orders are price averaged. These areas are monitored by the Blue Heron.

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

Blue Heron provides its services to a variety of investors, including but not limited to, individuals, banks, thrift institutions, pension and profit-sharing plans, trusts, estates, insurance companies, charitable organizations, corporations and other business entities.

### **Minimum Account Size**

Blue Heron does not impose a mandatory minimum portfolio size, however, depending on the strategy accounts may be required to meet a minimum size in order to properly allocate to individual underlying investments.

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

### **Methods of Analysis and Investment Strategies**

Blue Heron utilizes statistical analysis and proprietary investment management tools in order to select High Yield Securities for its client's portfolios. Blue Heron will seek to maximize the client's portfolio total return through capital appreciation and current yield from investments primarily in tax-exempt and taxable securities with a focus on securities that are rated below investment grade, including unrated securities. The approach is a top down/bottom-up investment process taking into account the following key factors:

- **Investment Universe**

BHI's primary investment universe consists of U.S. municipal bonds - Non-diversified nationally across regions and sectors: investing in America's infrastructure –essential services such as healthcare, transportation, education and power/energy. Additionally, BHI's investment universe includes bridge loan financing; a practical and affordable lending solutions to companies that do not meet the conventional and often unreasonable criteria demanded by banks, private equity firms or mezzanine lenders, as well as the tax-exempt financing that follows.

- **Macro Economics**

Top-down economic factors such as interest rates, credit cycles and political trends are assessed. Individual local and state analysis (fiscal policy, political climate, surplus/deficits) are also weighed and combined with industry analysis.

- **Relative Value Comparisons**

A unique relative value, risk-managed approach allows for a critical balance of our most compelling ideas against identified risks in constructing an optimal portfolio.

- **Fundamental Research**

Detailed and in-depth due diligence is completed on municipal credits – in search of industry

leaders, experienced and skilled managements, strong financial resources, balance sheet flexibility and stable to expanding margins.

## **Risks of Loss**

### *Risks associated with Certain Instruments:*

***Municipal Instruments.*** Municipal bonds – sometimes backed by the taxing power of a municipality, sometimes dedicated revenue streams, sometimes by other sources – are subject to government approvals and the political process and are limited in aggregate amount by various provisions of the Internal Revenue Code of 1986, as amended (the “Code”). The maturity dates, call and sinking fund payment and other terms of these securities vary widely, as does the demand for different issues, as well as the creditworthiness and the market’s acceptance of the respective issuers. BHI may invest in municipal securities with a broad range of maturities.

***Taxable Bridge Loan Instruments.*** BHI may invest in taxable, short-term, bridge loans. These instruments are issued by borrowers for private purposes which are unsubsidized. These projects may include, amongst others, industrial, manufacturing, recycling, housing, airport revenue, and education.

***Taxable Municipal Instruments.*** BHI may invest, to a lesser extent, in taxable municipal securities. These instruments are issued by municipalities for private purposes, which the federal government has not subsidized with a tax exemption. These projects include pension funding, housing, airport revenue, education, health care, stadiums, second refundings, some leases and a substantial number of government obligations.

***High Yield Securities.*** BHI may invest in below-investment grade fixed income securities (commonly known as “junk bonds”) that are considered speculative. Below-investment grade securities typically offer higher income potential and involve greater risk than higher-rated securities. These securities generally are issued by municipalities that may be in less secure financial condition. Adverse economic conditions may have a greater impact on such issuers. There is a greater likelihood that issuers of below-investment grade securities will be unable to make timely payments of interest and principal.

***Distressed Securities.*** BHI may trade in securities that are, or are about to be, involved in reorganizations, financial restructurings, or subject to bankruptcy proceedings or otherwise in default as to the repayment of principal and/or payment of interest at the time of acquisition or are rated in the lowest rating categories by at least one independent rating agency, or if unrated, judged to be of comparable quality.

***AMT Securities.*** BHI may also trade in securities – primarily “activity bonds” (i.e., bonds issued by municipalities for non-governmental purposes, such as constructing a sports stadium) – the interest on which is exempt from regular federal income tax but subject to the AMT.

***Taxable Debt Instruments.*** BHI may use U.S. Treasury and government agency securities, including mortgage-backed agency securities, interest rate swaps and futures and other taxable debt and debt-related instruments, both for investment and hedging purposes.

***Swaps and Other Derivatives.*** BHI may, but is not required to, use derivatives for a variety



of purposes, including as a hedge against adverse changes in the market price of securities, interest rates or currency exchange rates; as a substitute for purchasing or selling securities; and to increase BHI's return as a non-hedging strategy that may be considered speculative. BHI may choose not to make use of derivatives for a variety of reasons, and any use may be limited by applicable law and regulations. BHI also may invest in subordinated securities and asset-backed securities and may hold cash or other short-term investments.

#### *Market Risks*

The profitability of a significant portion of Blue Heron's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that Blue Heron will be able to predict those price movements accurately.

#### *Concentration Risk*

Concentrating investments in a particular country, region, market, industry or asset class means that performance will be more susceptible to loss due to adverse occurrences affecting that country, region, market, industry or asset class.

#### *Management Through Similarly Managed Accounts*

Blue Heron may manage portfolios by allocating portfolio assets among various securities on a discretionary basis using one or more of its proprietary investment strategies (collectively referred to as "*investment strategy*"). In so doing, Blue Heron buys, sells, exchanges and/or transfers shares of securities based upon the *investment strategy*.

Blue Heron's management using the *investment strategy* complies with the requirements of Rule 3a-4 of the Investment Company Act of 1940, as amended. Rule 3a-4 provides similarly managed accounts, such as the *investment strategy*, with a safe harbor from the definition of an investment company.

The *investment strategy* may involve an above-average portfolio turnover that could negatively impact upon the net after-tax gain experienced by an individual client. Securities in the *investment strategy* are usually exchanged and/or transferred without regard to a client's individual tax ramifications. Certain investment opportunities that become available to Blue Heron's clients may be limited. For example, various insurance companies may limit the ability of Blue Heron to buy, sell, exchange or transfer securities consistent with its *investment strategy*. As further discussed in response to Item 12 (below), Blue Heron allocates investment opportunities among its clients on a fair and equitable basis.

#### *Use of Margin*

To the extent that a client authorizes the use of margin, and margin is thereafter employed by Blue Heron in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to Blue Heron will be increased. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the potential conflict of interest whereby the client's decision to employ margin shall correspondingly increase the management fee payable to Blue Heron. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

While the use of margin borrowing can substantially improve returns, such use may also increase the adverse impact to which a client's portfolio may be subject. Borrowings will usually be from securities brokers and dealers and will typically be secured by the client's securities and/or other assets. Under certain circumstances, such a broker-dealer may demand an increase in the collateral that secures the client's obligations and if the client were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy the client's obligations to the broker-dealer. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of the client's borrowings and the interest rates on those borrowings, which will fluctuate, will have a significant effect on the client's profitability.

#### *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

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

Blue Heron is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. Blue Heron does not have any required disclosures to this Item.

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

Blue Heron is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons. Blue Heron does not have any affiliate relationship or arrangement to report.

### **Item 11. Code of Ethics and Personal Trading**

Blue Heron has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws ("Code of Ethics"). In accordance with Section 204A of the Investment Advisers Act of 1940 (the "Advisers Act"), its Code of Ethics contains written policies reasonably designed to prevent the unlawful use of material non-public information by Blue Heron or any of its associated persons. The Code of Ethics also requires that certain of Blue Heron's personnel (called "Access Persons") report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Blue Heron and persons associated with Blue Heron ("Associated Persons") are permitted to buy or sell securities that it also recommends to clients consistent with Blue Heron's policies and procedures. Such practices present a conflict of interest where, because of the information Blue Heron has, Blue Heron or its Associated Persons are in a position to trade in a manner that could adversely affect clients (e.g., place their own trades before or after client trades are executed in order to benefit from any price movements due to the clients' trades). Blue Heron has adopted policies and procedures, such as pre-clearance of personal trades and disclosure of personal securities transactions and holdings for Associated Persons, in an effort to minimize such conflicts.

When Blue Heron is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Blue Heron is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. 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.

### **Potential Conflicts of Interest**

In the course of our normal business, Blue Heron may encounter situations where the Firm faces a conflict of interest or could be perceived to be in a conflict-of-interest situation. A conflict of interest occurs whenever the interests of the Firm or its personnel diverge from those of a client or when the Firm or its personnel have obligations to more than one party whose interests are different. In order to preserve our reputation and comply with applicable legal and regulatory requirements, the Firm believes managing perceived conflicts is as important as managing actual conflicts.

### **Allocation of Investment Opportunities**

Blue Heron may have potential conflicts in connection with the allocation of investments or transaction decisions for client accounts, including situations in which the Firm may have interests in the investment being allocated and situations in which a Firm account ("Affiliated Client") may receive certain percentage of the investments being allocated. Blue Heron seeks to manage all client accounts and Affiliate Clients in accordance with each account's investment objectives and guidelines, and pursuant to the applicable legal and regulatory requirements.

The advice provided by the Firm to a client account, or an Affiliate Client may compete or conflict with the advice provided to another client account or may involve a different timing or course of action taken than with respect to a client account. For example, a client account may be competing for investment opportunities with the Firm and its Affiliated Clients and with other client accounts for certain limited investment opportunities.

### **Cross Transactions**

The Firm may, from time to time, engage in a cross transaction between two client Accounts. A cross trade is generally defined as pre-arranged transaction between two or more different funds or accounts, each of which is managed by the same adviser. For example, one account managed by adviser has cash and needs to be invested. Another account managed by the adviser has redemptions that need to be met by selling. In certain circumstances and subject to applicable client and regulatory requirements, the Firm may cross the transaction between the two accounts.

Clients and prospective clients may contact Blue Heron to request a copy of its *Code of Ethics*.

## Item 12. Brokerage Practices

As discussed above, in Item 5, Blue Heron generally recommends that clients utilize the brokerage and clearing services of *Schwab, Fidelity, TD Ameritrade and/or Oppenheimer*.

Factors which Blue Heron considers in recommending *Schwab, Fidelity, TD Ameritrade, Oppenheimer* or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. *Schwab, Fidelity, TD Ameritrade, and/or Oppenheimer* may enable Blue Heron to obtain some securities without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by *Schwab, Fidelity, TD Ameritrade, and/or Oppenheimer* may be higher or lower than those charged by other *Financial Institutions*.

The commissions paid by Blue Heron's clients comply with Blue Heron's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where Blue Heron determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a *Financial Institution's* services, including, among other things, the value of research provided, execution capability, commission rates, and responsiveness. Blue Heron seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions. However, Blue Heron, as a policy, does not compensate a broker-dealer for providing certain brokerage and research services that may be more than would have been paid to another broker-dealer for execution only.

Transactions may be cleared through other *Financial Institutions* with whom Blue Heron and the *Financial Institutions* have entered into agreements for prime brokerage clearing services. Blue Heron periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

The client may direct Blue Heron in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution*, and Blue Heron will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by Blue Heron (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, Blue Heron may decline a client's request to direct brokerage if, in Blue Heron's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Transactions for each client generally will be effected independently, unless Blue Heron decides to purchase or sell the same securities for several clients at approximately the same time. Blue Heron may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among Blue Heron's client's differences in prices and commissions or other transaction costs that might have been obtained

had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among Blue Heron's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that Blue Heron determines to aggregate client orders for the purchase or sale of securities, including securities in which Blue Heron's *Supervised Persons* may invest, Blue Heron generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the SEC. Blue Heron does not receive any additional compensation or remuneration as a result of the aggregation. In the event that Blue Heron determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, Blue Heron may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

### **Software and Support Provided by Financial Institutions**

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

Additionally, Blue Heron may also receive the following benefits from *Schwab* through its Schwab Institutional division and *Fidelity* through its Institutional Wealth Services Group: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services the Schwab Institutional or Institutional Wealth Services Group participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information. *Schwab and/or Fidelity* may also provide other benefits to Blue Heron such as attendance at conferences and educational events. *Schwab*

*and/or Fidelity* may discount or waive fees it would otherwise charge Blue Heron for these services.

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

### **Account Reviews**

For those clients to whom Blue Heron provides investment management services, Blue Heron monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. Such reviews are conducted by one of the Firm's investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with Blue Heron and to keep Blue Heron informed of any changes thereto. Blue Heron contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

### **Account Statements and General Reports**

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 Blue Heron provides investment advisory services will also receive a report from the Firm that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance from time to time. Clients should compare the account statements they receive from their custodian with those they receive from Blue Heron.

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

### **Economic Benefits**

The Firm is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. Blue Heron may receive economic benefits from non-clients for providing advice or other advisory services to clients. This type of relationship poses a conflict of interest and any such relationship is disclosed in response to Item 12, above.

### **Client Referrals**

The Firm is required to disclose any direct or indirect compensation that it provides for client referrals.

If a client is introduced to Blue Heron by either an unaffiliated or an affiliated solicitor, Blue Heron may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Advisers Act and any corresponding state securities law requirements. Any such referral fee is paid solely from Blue Heron's investment management fee and does not result in any additional charge to the client. If the client is introduced to Blue Heron by an unaffiliated solicitor, the solicitor provides the client with a copy of Blue Heron's written disclosure brochure which meets the requirements of Rule 204-3 of the Advisers Act and a copy of the solicitor's disclosure statement containing the terms and conditions of the solicitation arrangement including compensation. Any affiliated solicitor of Blue Heron discloses the nature of his/her relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a

copy of Blue Heron's written disclosure brochure at the time of the solicitation.

Blue Heron has relationships with other parties, which include service providers, accountants, lawyers, and data providers whose compensation is solely for the services for which they are engaged and may from time to time refer clients to PSP.

## **Item 15. Custody**

Blue Heron's *Agreement* and/or the separate agreement with any *Financial Institution* may authorize Blue Heron through such *Financial Institution* to debit the client's account for the amount of Blue Heron's fee and to directly remit that management fee to Blue Heron in accordance with applicable custody rules.

The *Financial Institutions* recommended by Blue Heron have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Blue Heron. In addition, as discussed in Item 13, Blue Heron also sends periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the *Financial Institutions* and compare them to those received from Blue Heron.

## **Item 16. Investment Discretion**

Blue Heron may be given the authority to exercise discretion on behalf of clients. Blue Heron is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. Blue Heron is given this authority through a power-of-attorney included in the agreement between Blue Heron and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). Blue Heron takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made;
- The *Financial Institutions* to be utilized;
- The commission rates to be paid to a broker or dealer for a client's securities transaction.

## **Item 17. Voting Securities**

Blue Heron may vote client securities (proxies) on behalf of its clients. When Blue Heron 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 Blue Heron's Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in Blue Heron's Proxy Voting Policies and Procedures, as they may be amended from time-to-time. Clients may contact Blue Heron to request information about how Blue Heron voted proxies for that client's securities or to get a copy of Blue Heron's Proxy Voting Policies and

## Procedures.

Blue Heron 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 Blue Heron'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, Blue Heron devotes an appropriate amount of time and resources to monitor these changes.

Clients cannot direct Blue Heron's vote on a particular solicitation but can revoke Blue Heron'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 Blue Heron maintains with persons having an interest in the outcome of certain votes, Blue Heron 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 18. Financial Information**

Blue Heron does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, Blue Heron is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Blue Heron has no disclosures pursuant to this Item.