Every investment adviser registered with the SEC is required to establish and maintain policies and procedures reasonably designed to prevent violations of the Investment Advisers Act of 1940 ("Advisers Act") and rules and regulations related to that Act as well as to detect and correct violations that occur.

Policy – Compliance

Supplement to the Cornerstone Professional Advisor Services, LLC Compliance Program
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INTRODUCTION

This Policies and Procedures Manual for Investment Adviser Representatives is intended to contain the policies of Cornerstone Professional Advisor Services, LLC. (hereinafter referred to as "the Firm"), which affect the conduct of all personnel of our Firm.

The Firm will conduct its business consistent with high standards of commercial honor and just and equitable principles of trade. Keeping our customers' interest foremost is a key to our success. The trust of our customers and the Firm's reputation are of paramount importance. Effective supervision is an integral part of achieving our goals in serving our customers.

"Compliance" is not a static event; it is a process, which evolves in tandem with regulations that govern our industry and the circumstances of each particular interaction. This manual includes policies, procedures and regulatory references to provide guidance in the oversight of the Firm’s business. It is a working document and reference for the Firm’s representatives and will be updated when necessary.

This manual is the property of the Firm and may not be provided to anyone outside the Firm without the permission of the Compliance Officer or his/her designee.
This Regulatory Reference Section has been developed to provide you with the regulatory requirements relating to the Investment Advisory industry and its professionals. These sections will be periodically reviewed and updated to provide summaries of the important new and current regulations covering investment advisers.

Investment adviser firms endeavor at all times to operate in conformity with federal and/or applicable state laws and to conduct their businesses in the highest ethical and professional manner. The Firm believes that clients can be best served when all of its personnel are informed as to the fiduciary, legal, technical and mechanical aspects of its business and have a good working knowledge of practices and policies suited to achieve client objectives and comply with the law.

The Fiduciary Standard

An investment adviser is a fiduciary to its advisory clients.

Background: The Investment Advisers Act of 1940 (Advisers Act) was enacted, at least in part, to strengthen the fiduciary nature of the relationships between advisers and their clients. The Supreme Court has stated that Section 206 of the Advisers Act establishes federal fiduciary standards to govern the conduct of investment advisers. (See Securities and Exchange Commission v. Capital Gains Research Bureau, 375 U.S. 18 (1963), in which the Court stated that the Advisers Act is evidence that Congress recognized the fiduciary nature of the relationship between an investment adviser and its client and intended to "eliminate, or at least expose, all conflicts of interest which might incline an investment adviser -- consciously or unconsciously -- to render advice which was not disinterested."). Section 206 states that it is unlawful for any investment adviser, using the mails or any means or instrumentality of interstate commerce:

i. to employ any device, scheme, or artifice to defraud a client or prospective client;

ii. to engage in any transaction, practice, or course of business which defrauds or deceives a client or prospective client;

iii. knowingly to sell any security to or purchase any security from a client when acting as principal for his or her own account, or knowingly to effect a purchase or sale of a security for a client's account when also acting as broker for the person on the other side of the transaction, without disclosing to the client in writing before the completion of the transaction the capacity in which the adviser is acting and obtaining the client's consent to the transaction; and

iv. to engage in fraudulent, deceptive or manipulative practices.
The SEC has stated that investment advisers owe their clients several specific duties as fiduciaries. According to the SEC, the fiduciary duties include the provision of advice that is suitable for the client, full disclosure of all material facts and actual and potential conflicts of interest, utmost and exclusive loyalty and good faith, best execution of client transactions, and the exercise of reasonable care to avoid misleading clients.
REGISTRATION

Policy

As a registered investment adviser, the Firm maintains and renews its adviser registration on an annual basis through the Investment Adviser Registration Depository ("IARD"), for the Firm, state filings, as appropriate, and investment adviser representatives ("IARs").

The Firm's policy is to monitor and maintain all appropriate firm and IAR registrations that may be required for providing advisory services to our clients in any location. The Firm monitors the state residences of our advisory clients, and will not provide advisory services unless appropriately registered as required, or a de minimis or other exemption exists.

Background

In accordance with the Advisers Act, and unless otherwise exempt from registration requirements, investment adviser firms are required to be registered either with the Securities and Exchange Commission (SEC) or with the state(s) in which the Firm maintains a place of business and/or is otherwise required to register in accordance with each individual state(s) regulations and de minimis requirements. The registered investment adviser is required to maintain such registrations on an annual basis through the timely payment of renewal fees and filing of the Firm’s Annual Updating Amendment.

Individuals providing advisory services on behalf of the Firm are also required to maintain appropriate registration(s) in accordance with each state(s) regulations unless otherwise exempt from such registration requirements. The definition of investment adviser representative may vary on a state-by-state basis. The investment adviser agent registration(s) must also be renewed on an annual basis through the timely payment of renewal fees.

Responsibility

The Compliance Officer or his designee has the responsibility for the implementation and monitoring of our registration policy, practices, disclosures and recordkeeping.
**Procedure**

The Firm has adopted various procedures to implement the Firm’s policy and reviews to monitor and insure the Firm’s policy is observed, implemented properly and amended or updated, as appropriate, which include the following:

- The Compliance Officer, or other designated officer, monitors the state residences of our advisory clients, and the Firm and/or its IARs will not provide advisory services unless appropriately registered as required, or a de minimis or other exemption exists.

- The Firm's Compliance Officer, or other designated officer, monitors the Firm's and IAR registration requirements on an on-going as well as a periodic basis.

- Registration filings are made on a timely basis and appropriate files and copies of all filings are maintained by the Compliance Officer or other designated officer.

**Regulatory Reference:** Registration

**Registration with the SEC**

One of the important provisions of the Advisers Act calls for the registration of certain investment advisers with the Securities and Exchange Commission. Once registered, an adviser must comply with the regulations promulgated under the Advisers Act.

Allowing for certain exemptions, an adviser is defined in Section 202(a)(II) of the Advisers Act as, "any person who, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing, or selling securities, or who for compensation and as part of a regular business, issues or promulgates analyses or reports concerning securities."

Under the National Securities Markets Improvement Act of 1996 ("NSMIA"), the Investment Advisers Supervision Coordination Act ("Coordination Act"), a section of NSMIA, and SEC amendments to the Advisers Act and the rules thereunder (SEC IA Release 1633 dated May 15, 1997) effective July 8, 1997, the responsibility for the regulation of investment advisers was divided between the SEC and the states.

Under Section 203A, only the following advisers are eligible to be registered with the SEC:
1. Firms which are investment advisers to a registered investment company under the Investment Firm Act of 1940;
2. An adviser with over $25 million in assets under continuous and regular supervision or management;
3. Advisers with their principal place of business and principal office in a state which does not either register or regulate investment advisers (Wyoming and foreign advisers).
4. Nationally recognized statistical rating organizations;
5. Advisers who act as pension consultants for ERISA, church, or governmental plans with an aggregate value of at least $50 million;
6. Investment advisers controlling, controlled by or under common control with an SEC registered adviser so long as they have the same principal office and place of business;
7. New investment advisers with a reasonable expectation that the Firm will be eligible to register with the SEC within 120 days of its registration becoming effective; and
8. Investment advisers who would be required to register with thirty (30) or more states, may register with the SEC (Rule 203A-2(e)). Once initially SEC registered under this multi-state exemption, investment advisers will have to maintain an obligation to be registered with at least twenty-five (25) states or withdraw from registration with the SEC. The multi-state exemption is also applicable to new investment advisers, who anticipate being registered in more than 30 states within 120 days after the effective date of their registration. To continue eligibility, investment advisers must provide annually a representation that they are required to register in at least 25 states, and maintain a record of those states.
9. Internet Investment Advisers who exclusively provide investment advice through an interactive website even though the adviser does not have over $25 million assets under management or meet any other SEC eligibility criteria. An interactive website uses computer software-based models or applications to provide investment advice to clients based on personal information provided by a client through the website. (The SEC adopted new rule 203A-2(f) effective 1/20/2003 allowing Internet Investment Advisers to be eligible for SEC registration based on the national scope of their advisory services and to avoid the burden of multiple state registrations.)
10. Such other advisers for whom the SEC may grant exemptive relief.

**Investment Adviser Registration Depository (IARD)**

In a major change for the industry, beginning January 1, 2001, all new and SEC registered investment advisers were required to make and maintain registrations on the Investment Adviser Registration Depository (IARD). The IARD was developed by the SEC and the North American Securities Administrators Association (NASAA) and is operated by NASD Regulation, Inc. (NASDR).

The third phase of IARD implementation became effective 3/18/2002, allowing 1) new investment adviser representatives to register, and 2) currently registered
investment adviser representatives to transition their existing registrations with states that are on the IARD system to the Web CRD system. The IARD is providing access to Web CRD to maintain this new database of investment adviser representative registration information.

SEC and state registered advisory firms that are currently on the IARD system must register new investment adviser representatives on Web CRD by filing a Form U-4.

Individual state deadlines to file investment adviser rep transition filings vary greatly due to the legislative process in adopting new regulations in the states. Most states have mandated that investment adviser reps transition to the Web CRD.

On-line assistance with instructions for transitioning or filing adviser representative registrations on the Web CRD system is available in the IARD Users Manual (http://www.iard.com/) and by calling the IARD Gateway Call Center at (240) 386-4848.

The fourth phase of the IARD implementation will be to add the investment adviser representative registration database information to the Investment Adviser Public Disclosure website (“IAPD”) (www.adviserinfo.sec.gov.) so it will be available to the public on the Internet, in the near future.

Additional phases of IARD implementation will include requiring new Form ADV Part 2, when adopted, to be filed electronically on IARD and to then also make Form ADV Part 2 available on the Internet on IAPD. These phases are also expected in the near future.

Ultimately, IARD will be a one-stop electronic filing system for all SEC and state registered advisers. All advisers and their agents will become registered, maintain and renew their firm and agent registrations, pay filing fees and submit state registrations and notice filings via the IARD, and all information will be available to the public via the Internet when the IARD is complete.

State Registrations

Under the Coordination Act and Section 203A of the Advisers Act, an investment adviser that is regulated or required to be regulated as an adviser in the state in which it maintains its principal office and place of business is required to register with the state(s) and is prohibited from being registered with the SEC unless the adviser is eligible to be SEC registered (Sec. 2.1).

As a result of the creation of the IARD by the SEC and NASAA, the IARD initially accepted voluntary filings of state-registered advisers. Most states have mandated that state-registered advisers use IARD for submitting applications and maintaining firm and agent registrations, making annual renewals and paying firm filing fees. Firms should confirm filing procedures with the state(s) before making any state
Also under the Coordination Act, a national de minimis standard has been established. State investment adviser laws do not apply to an investment adviser firm that does not have a place of business in a state and has fewer than six clients who are residents of that state. The only exception to this rule is Texas, which requires a "notice filing" (not to be confused with the notice filing an SEC registered adviser makes) for all state registered advisers prior to retaining their first Texas client.

Advisers need to maintain a list of clients by state of residency, and monitor the state residences of clients to ensure compliance with the national de minimis and state regulations. State registration of the firm and investment adviser representatives may be required, based on the number of clients residing in the state, unless the national de minimis or an applicable exemption exists.

Branch Offices: Certain states require registration of all branch offices of an investment adviser. In addition, notification of the establishment of a branch or termination of a branch (in addition to amending Schedule D of Form ADV Part 1) is a requirement in a number of states. Notification is required within specific timeframes regarding opening or closing branch offices, and definitions of "branch office" vary from state to state.

Agent Registration

The Advisers Act and amendments under the Coordination Act provide that investment adviser representatives are subject to state requirements. A state may require that these representatives be:

- registered or licensed on Form U-4;
- qualified by examination or experience only; or,
- added to Form ADV (Part II Item 6)

Under the Coordination Act, “supervised persons” are defined as “any partner, officer, director..., or representative of an investment adviser or other person who provides investment advice on behalf of the investment adviser and is subject to the supervision and control of the adviser.” Supervised persons are not subject to state registration requirements unless the person meets the Advisers Act definition (Rules 203 A-3a(1) and a(3)(i) of an investment adviser representative.

The investment adviser representative definition under the Advisers Act is a supervised person with more than 10 percent of his or her clients being natural persons (i.e., individuals). (Individuals who have at least $750,000 under management with the adviser or a net worth of $1.5 million are not counted as natural persons.) These investment adviser representatives who have a “place of business” in a particular state may have to register as investment adviser...
representatives in states with registration requirements.

Under an amendment effective December 31, 1998, supervised persons who have a) fewer than five natural clients, or b) any number of natural clients which represent less than ten percent of their client base, are not subject to state registration requirements. The following clients will be considered excepted persons and will not be counted in computing the ten percent allowances:

1. Clients who have $750,000 under management with the investment adviser immediately after entering into an advisory contract,
2. Clients who are believed to have either a net worth of more than $1,500,000 or are “qualified purchasers” as defined in Section 2(9)(51)(p) of the Investment Firm Act at the time the contract is entered into, and,
3. Executive officers, directors, trustees, general partners or persons serving in a similar capacity of the investment adviser, as well as certain other representatives of the adviser who participate in investment activities and have performed such functions for at least 12 months.

While examination requirements for investment adviser representatives vary greatly from state to state, effective 1/1/2000, new and improved Series 65 and 66 exams have been offered. The new Series 65 taken after 1/1/2000, has become the most widely accepted exam recognized by the states followed by the Series 7 and the new Series 66 taken after 1/1/2000, for new investment adviser representatives.

These new exams are designed to place emphasis on a person’s competency rather than rules and regulations. New topics such as economic analysis, investment vehicles and strategies are included.

Under state regulations, the definition of an investment adviser representative also varies greatly from state to state. In some states, any individual who solicits clients for an adviser must be registered as an investment adviser representative of the Firm. In other states, only those who actually provide investment advice must be registered as investment adviser representatives. In others, the person(s) who supervise investment adviser representatives must themselves be registered as investment adviser representatives. Advisers must conduct an in-depth review of individual state registration requirements prior to soliciting business in any state in which the Firm and/or each individual is not registered.

Phase III of IARD implementation became effective March 2002, allowing state registrations of new and existing investment adviser representatives to be filed, maintained and renewed electronically on the Web CRD system. Filing deadlines to 1) begin filing new registration applications for investment adviser representatives and 2) transition currently registered investment adviser representatives to electronic registrations are set by each individual state. All states that require registration of investment adviser representatives have mandated that investment adviser representatives transition to and file new registration applications on Web CRD if the
Firm has an IARD account. A Form U-4 filing is required to complete IA rep transition filings. IARs are now referred to as “RAs” for purposes of filing on Web CRD. The term “RA” is the designation Web CRD has assigned to investment adviser representative registrations. Whereas, the term “AG” denotes a broker-dealer registered representative registration.

Assistance for advisory firms filing new or transitioning existing individual registrations is available in the IARD User’s Manual (http://www.iard.com/) and by calling the IARD Gateway Call Center at (240) 386-4848. It is expected that public disclosure of the IAR registration database information will be made available on the SEC’s Investment Adviser Public Disclosure (IAPD) website (http://www.adviserinfo.sec.gov/) in the near future.

**State and Agent Renewals**

State registrations require renewal on a timely basis. Renewal requirements vary widely from state to state for both an adviser and its investment adviser representatives. All states renew licenses on a calendar year basis. Procedures must be developed to ensure renewals are received and processed each year. This system will include maintaining close contact with State Securities Boards to ensure continued compliance in those states where an adviser conducts business or maintains offices or solicits clients.

Since January 2001, SEC registered advisers have been required to file, renew and pay for state notice filings on the IARD. During 2001, most states adopted regulations requiring state registered advisers to use the new Form ADV Part 1 and to make transition filings on IARD, and requiring new advisers to apply for state registration on IARD. By year-end 2003, most states had mandated that state-registered advisers transition to IARD so that their renewals could be processed electronically. The remaining states are waiting for the new Part 2 to be available before they mandate or do not have any plans to mandate use of IARD.

Since state registrations have been transitioned to the IARD, all state notice filings, can be renewed electronically on IARD. A renewal statement will be available on the Firm’s IARD Account in November of every year. The renewal statement contains instructions on how to renew the Firm's state registrations or notice filings and investment adviser representative registrations. Contact the states directly to confirm renewal requirements and deadlines.
Policy

The Firm has adopted these written policies and procedures which are designed to set standards and internal controls for the Firm, its representatives, and its businesses and are also reasonably designed to detect and prevent any violations of regulatory requirements and the Firm’s policies and procedures. Every representative and manager is required to be responsible for and monitor those individuals and departments he or she supervises to detect, prevent and report any activities inconsistent with the Firm’s procedures, policies, high professional standards, or legal/regulatory requirements.

Background

The SEC has adopted a new anti-fraud rule titled Compliance Procedures and Practices (Rule 206(4)-7) under the Advisers Act requiring more formal compliance programs for all SEC registered advisers effective 2/5/2004. SEC advisers have until 10/5/2004 (compliance date) to be in compliance with the new rule.

The new Compliance Procedures and Practices rule makes it unlawful for a SEC adviser to provide investment advice to clients unless the adviser:

1. adopts and implements written policies and procedures reasonably designed to prevent violations by the Firm and its supervised persons;
2. reviews, at least annually, the adequacy and effectiveness of the policies and procedures;
3. designates a chief compliance officer who is responsible for administering the policies and procedures; and
4. maintains records of the policies and procedures and annual reviews.

Under Section 203(e)(6), the SEC is authorized to take action against an adviser or any associated person who has failed to supervise reasonably in an effort designed to prevent violations of the securities laws, rules and regulations. This section also provides that no person will be deemed to have failed to supervise reasonably provided:

1. there are established procedures and a system which would reasonably be expected to prevent any violations;
2. and such person has reasonably discharged his duties and obligations under the Firm's procedures and system without reasonable cause to believe that the procedures and system were not being complied with.
**Responsibility**

Every IAR has a responsibility for knowing and following the Firm’s policies and procedures. Every person in a supervisory role is also responsible for those individuals under his/her supervision. The senior management has overall supervisory responsibility for the Firm.

The Compliance Officer has the overall responsibility for monitoring and testing compliance with the Firm's policies and procedures. Possible violations of these policies or procedures will be documented and reported to the appropriate department manager for remedial action. Repeated violations, or violations that the Compliance Officer deems to be of serious nature, will be reported by the Compliance Officer directly to senior management.

**Procedure**

The Firm has adopted various procedures to implement the Firm’s policy, reviews and internal controls to monitor and insure the Firm’s supervision policy is observed, implemented properly and amended or updated, as appropriate which include the following:

- Adoption and maintenance of a current organization chart reflecting names, titles, responsibilities and supervisory structure.
- Designated a chief compliance officer as responsible for implementing and monitoring the Firm's compliance policies and procedures.
- An Annual Compliance Meeting.
- Written policies and procedures with statements of policy, designated persons responsible for the policy and procedures designed to implement and monitor the Firm's policy.
- Annual review of the Firm’s policies and procedures by the Compliance Officer and senior management so as to remain adequate, effective, current, meet regulatory requirements and be consistent with the Firm’s business.
- Maintaining appropriate records of the Firm's annual review and changes to the Firm's policies and procedures.
- Periodic reviews of representatives' activities, e.g., personal trading.
- Annual written representations by representatives as to understanding and abiding by the Firm’s policies.
- Supervisory reviews and sanctions for violations of the Firm’s policies or regulatory requirements.
Regulatory Reference: Supervision/Internal Controls

Section 203(e)(6) of the Advisers Act authorizes the Securities and Exchange Commission to take appropriate action against an investment adviser if the adviser or any person associated with the adviser "has failed reasonably to supervise, with a view to preventing violations of the provisions of the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Firm Act of 1940, the Investment Advisers Act of 1940, the rules or regulations under any of those statutes or the rules of the Municipal Securities Rulemaking Board." The Section further provides that "no person shall be deemed to have failed reasonably to supervise any person if --

- there have been established procedures, and a system for applying such procedures, which would reasonably be expected to prevent and detect, insofar as practicable, any such violation by such other person, and
- such person has reasonably discharged the duties and obligations incumbent upon him by reason of such procedures and system without reasonable cause to believe that such procedures and system were not being complied with."

Particular controls will vary from adviser to adviser, depending on factors such as size, method of operation, internal structure, and type of client (e.g., mutual funds). However, certain general principles will govern the creation of any internal controls system by an adviser:

1. The adviser should analyze its operations to be sure that they comply with the requirements of the various securities laws -- federal and state -- as well as other applicable laws and regulations (e.g., ERISA, Investment Firm Act if the adviser advises mutual funds, CFTC regulations, or others, as applicable) and should use that analysis to create and document a system of internal controls, or to supplement its existing internal controls system.
2. The adviser should undertake a program to educate its personnel so that they understand the policies and procedures that make up the controls and understand their responsibility to follow those policies and procedures.
3. The adviser should adopt a program of testing and review designed to provide reasonable assurance that its policies and procedures are being followed and are effective.

The Insider Trading and Securities Fraud Enforcement Act of 1988 ("ITSFEA") and Section 204A of the Advisers Act require investment advisers to create, maintain, and enforce written supervisory procedures designed to prevent the misuse of non-public information. In addition, some states require an adviser to have written procedures in place. NRS recommends that these requirements serve as the basis for the development of a set of written supervisory procedures that outline all of an adviser's responsibilities under the Advisers Act (or applicable state law for state-only advisers who are also subject to the requirements of ITSFEA). In addition, NRS recommends that every person
associated with the advisory process should read the Firm's policies and procedures compliance manual and sign a statement of compliance and understanding of these policies and procedures. It is, of course, the Legal/Compliance Officer’s responsibility to know the Advisers Act rules and regulations (and the state regulations) in order to develop and maintain the Firm's compliance policies and procedures manual. The SEC has indicated that with such procedures and a system for applying the procedures in place, no person will be deemed to have failed reasonably to supervise - thus, offering some protection from disciplinary action by the SEC for failure to supervise. [See Section 203(e)(6)(A) of the Investment Advisers Act of 1940].

The purpose of compliance is to prevent and detect violations of federal (and state) securities laws, and to ensure that the investment adviser's fiduciary responsibilities are met. In addition, systems need to be developed to provide safeguards against intentional and inadvertent violation of laws, rules and regulations, and against those representatives who may be tempted to engage in improper conduct.

**New SEC rule for IA Compliance Programs**

The SEC has adopted a new anti-fraud rule titled Compliance Procedures and Practices (Rule 206(4)-7) under the Advisers Act requiring more formal compliance programs for all SEC registered advisers effective 2/5/2004. SEC advisers have until 10/5/2004 (compliance date) to be in compliance with the new rule.

The new Compliance Procedures and Practices rule makes it unlawful for a SEC adviser to provide investment advice to clients unless the adviser:

1. adopts and implements written policies and procedures reasonably designed to prevent violations by the Firm and its supervised persons;
2. reviews, at least annually, the adequacy and effectiveness of the policies and procedures;
3. designates a chief compliance officer who is responsible for administering the policies and procedures; and
4. maintains records of the policies and procedures and annual reviews.

Each adviser must customize and properly implement its policies and procedures in a manner that enables the adviser to effectively supervise the activities of its personnel and branch offices (if applicable). SEC enforcement actions against advisers also demonstrate the need for effective supervisory procedures and a system of supervision. The failure to supervise cases illustrate that an adviser (or broker-dealer) and/or its principals is subject to potential liability if the Firm’s internal procedures are insufficient, ineffective or improperly enforced. To ensure that the activities of an adviser’s representatives and principals are reasonably supervised by an adviser’s supervisors and compliance personnel, written procedures for detecting and preventing violations of securities laws must be adequately customized and effectively implemented and supervised by the adviser. Based upon the SEC’s findings and conclusions in these cases and the new
compliance programs requirements, it appears that the following procedures, among others, are necessary for proper supervision:

1. Clear and well defined organization charts as to personnel, business functions and responsibilities for the Firm and each department or function within the Firm;
2. Independent checks and monitoring of representatives’ activity;
3. Effective and timely inquiries, and resolution of any irregular or improper activity;
4. Ongoing understanding and suitability evaluation of investment strategies used by portfolio managers, traders and registered representatives of brokers;
5. Specialized and enhanced procedures for new or complex investment products, e.g., derivatives;
6. Effective communication between supervisors (former and current) and compliance persons;
7. Annual Compliance Meetings for all representatives to review a Firm’s important policies, procedures and regulatory developments.
8. Annual Representative certifications as to understanding and abiding by the Firm’s policies and procedures.

A very important shift and new initiative was announced in October 2002 by the SEC Office of Compliance Inspections and Examinations indicating that a risk-based approach will be used to select advisers for examination. The SEC will evaluate the risk management and internal control systems used by a firm in determining the firm’s risk profile, which will also determine the frequency of SEC examinations, i.e., every two years for higher risk profile firms and every four years for lower risk firms.

In assessing a firm’s controls, if regulatory testing indicates the systems are working effectively, the amount of additional testing and length of the examination can expect to be reduced.

If testing indicates weaknesses in the controls and systems, additional testing and deeper, more thorough and longer examinations can be expected.

The new SEC initiative is designed to be more efficient for the SEC, and firms as well, and to “incentivize firms to create, implement and demonstrate sound controls.”
Specifically, supervisors must promptly respond to warning signs, i.e., red flags, regarding potentially wrongful conduct by representatives. Once a supervisor becomes aware of a red flag, the SEC expects an adviser to thoroughly review and follow up on the information in the firm’s possession. The follow up may require contacting clients to obtain more substantive information. Any findings by the supervisors should be recorded and the involved individuals should be appropriately monitored and/or disciplined by the adviser. Additionally, procedures must be promptly amended if it is determined that those in place are inadequate.

The SEC’s direction is clear that formal policies, procedures, internal controls, and designated responsible persons, are becoming more important and required for advisers and investment companies as the SEC seeks to shift more regulatory responsibilities to the firms.

**Gifts, Loans, Contributions and Other Payments**

Because of the fiduciary and business relationships an adviser has with its clients and other entities, the adviser and its representatives should not solicit gifts or gratuities. Also, gifts of an extraordinary or extravagant nature to an representative should be declined or returned in order to not compromise the reputation of the representative or the Firm. Gifts of nominal value or those that are customary in the industry such as meals, entertainment, etc. may be appropriate.

Also, the NASD and NYSE have requirements that no representative of a member firm may give gifts in excess of $100 to any person at another firm or securities or financial institution without the prior approval of the representative's firm.

Any form of a loan by an representative to a client or by a client to an representative should not allowed be as a matter of Firm policy and good business practice.

Any questions about gifts, gratuities or other payments to representatives or from representatives to persons outside the Firm should be subject to appropriate supervisory review and the Firm's policy.

**Outside Employment or Other Activities**

Any employment or other outside activity by an representative may result in possible conflicts of interests for the representative or for the Firm and therefore should be reviewed and approved by the representative's supervisor (and the Firm's Compliance Officer or his designee). Outside
activities which must be reviewed and approved include such activities as the following:

1. being employed or compensated by any other entity,
2. active in any other business including part-time, evening or weekend employment,
3. serving as an officer, director, partner, etc., in any other public or private entity,
4. ownership interest in any non-publicly traded company or other private investments or,
5. any public speaking or writing activities.

Written approval for any of the above activities should be obtained by an representative before undertaking any such activity so that a determination may be made that the activities do not interfere with any of the representative's responsibilities at the Firm and any conflicts of interests in such activities may be addressed. (Certain Form ADV disclosures and amendments may be applicable.)
CODE OF ETHICS

Policy

The Firm, as a matter of policy and practice, and consistent with industry best practices and SEC requirements (new SEC Rule 204A-1 under the Advisers Act and Rule 17j-1 under the Investment Firm Act, which is applicable if the Firm acts as investment adviser to a registered investment company), has adopted a written Code of Ethics covering all supervised persons. Our Firm's Code of Ethics requires high standards of business conduct, compliance with federal securities laws, reporting and recordkeeping of personal securities transactions and holdings, reviews and sanctions. The Firm's current Code of Ethics, and as amended, is incorporated by reference and made a part of these Policies and Procedures.

Background

In July 2004, the SEC adopted a new rule (Rule 204A-1) similar to Rule 17-j-1 under the Investment Firm Act requiring SEC advisers to adopt a code of ethics. The new rule was designed to prevent fraud by reinforcing fiduciary principles that govern the conduct of advisory firms and their personnel.

The new Code of Ethics rule has an effective date of 8/31/2004 and a compliance date of 2/1/2005. Among other things, the Code of Ethics rule requires the following:

- setting a high ethical standard of business conduct reflecting an adviser's fiduciary obligations;
- compliance with federal securities laws;
- access persons to periodically report personal securities transactions and holdings, with limited exceptions;
- reporting of violations;
- delivery and acknowledgement of the Code of Ethics by each supervised person;
- review and sanctions;
- recordkeeping; and
- summary Form ADV disclosure.

An investment adviser's Code of Ethics and related policies and procedures represent a strong internal control with supervisory reviews to detect and prevent possible insider trading, conflicts of interest and potential regulatory violations.
Responsibility

The Compliance Officer or designee has the primary responsibility for the preparation, distribution, periodic reviews of the Firm's Code of Ethics as well as enforcing and monitoring our Code of Ethics, practices, disclosures and recordkeeping.

Procedure

The Firm has adopted procedures to implement the Firm's policy on personal securities transactions and reviews to monitor and insure the Firm's policy is observed, implemented properly and amended, as appropriate, which include the following:

Formal adoption of the Firm's Code of Ethics by management.

- The Compliance Officer annual distributes the current Code of Ethics to all supervised persons.
- Each supervised person must acknowledge receipt of the Firm's Code of Ethics annually and return a signed acknowledgement/certification form to the Compliance Officer.
- The Compliance Officer, with other designated officer(s) annually reviews the Firm's Code of Ethics and updates the Code of Ethics as may be appropriate.
- The Compliance Officer periodically reviews access persons' personal securities/holdings reports.
- The Compliance Officer, or his/her designee, retains relevant Code of Ethics records as required, including but not limited to, Codes of Ethics, as amended from time to time, acknowledgement/certification forms, initial and annual holdings reports, quarterly and annual reports or personal securities transactions, violations and sanctions, among others.
- The Firm provides initial and periodic education about the Code of Ethics, and each person's responsibilities and reporting requirements, under the Code of Ethics.
- The Firm's Form ADV Part II is amended and periodically reviewed by the Compliance Officer to appropriately disclose a summary of the Firm's Code of Ethics.
- The Compliance Officer is responsible for receiving and responding to any client’s requests for the Firm's Code of Ethics and maintaining required records.
Regulatory Reference: Code of Ethics

In July 2004, the SEC adopted a final new rule (Rule 204A-1) Investment Adviser Code of Ethics for all SEC advisers. The new rule became effective August 31, 2004 and has a compliance date of February 1, 2005, by which advisers must comply.

The SEC rule is "designed to prevent fraud by reinforcing fiduciary principles that must govern the conduct of advisory firms and their personnel." The new rule is one of a number of regulatory initiatives by the SEC to address an increasing number of enforcement actions against advisers of their personnel alleging violations of fiduciary obligations to clients, including mutual fund clients.

Many SEC advisers have already adopted Code of Ethics as best industry practice, and advisers to mutual funds have been required to have a Code of Ethics since 1980.

1. Standards of Conduct

   As a fiduciary, an adviser's Code of Ethics must establish a high standard of business conduct for the Firm, and its supervised persons, and require compliance with federal securities laws.

2. Protecting Inside Information

   Advisers already must have a policy prohibiting the misuse of inside information under Section 204A of the Advisers Act and other securities laws. The rule release notes and suggests but does not require that an adviser's Code of Ethics cover and prevent access to material non-public information about the adviser's investment recommendations, client holdings and transactions, and restrict it to only those persons on a need-to-know basis.

3. Personal Securities Trading

   The Code of Ethics rule requires, personal trading reports of "access persons" similar to the requirements for advisers to mutual funds on a quarterly basis and initial and annual securities holdings reports.

   An "access person is a supervised person who has access to non public information regarding clients' purchase or sale of securities, is involved in making securities recommendations to clients or who has access to such recommendations that are non public." (Rule 204A-1(e)(1)

   Another new requirement is that access persons report holdings and trades in mutual fund shares managed by the adviser or a control affiliate. This is to be consistent with what advisers to investment companies are now required to do.
4. **Violations**
   The rule requires prompt reporting of any violations of a Firm's Code of Ethics.

5. **Acknowledgements**
   An adviser is required to provide its Code of Ethics to each supervised person and require an acknowledgement of receipt so all representatives are informed and receive it. (NOTE: The rule requires that an adviser keep these acknowledgements for all supervised persons for the length of the person's employment plus 5 years.)

6. **Other Code Requirements**
   Like a Code of Conduct, a Code of Ethics can cover other policies where potential and actual problems may arise. These additional provisions could cover such things as gifts, outside employment, periodic reviews and sanctions.

7. **Review and Enforcement**
   An adviser is required to review and enforce the Firm's Code of Ethics, which may be the responsibility of the adviser's Compliance Officer, management, or both.

8. **Recordkeeping**
   Under the new rule, existing books and records requirements for reporting personal transactions are simplified and new recordkeeping requirements for records for a Firm's Code of Ethics, acknowledgements, violations and other records be imposed.

9. **Form ADV Disclosure**
   Form ADV Part II disclosure is required for an adviser to provide a summary description its Code of Ethics to clients and provide it upon client request.

The SEC Final Rule Release discussed some of the industry's best practices for advisers' Code of Ethics and suggested, but does not require, that advisers consider whether to adopt various practices regarding personal trading restrictions, such as pre-clearance, blackout periods, short swing profit restrictions, among others.

The SEC Release (No. IA-2256 dates July 2, 2004 is available under Final Rules on the SEC website ([www.sec.gov](http://www.sec.gov)).

**PERSONAL SECURITIES TRANSACTIONS & RECORDS**
Policy

The Firm's policy allows representatives to maintain personal securities accounts provided any personal investing by an representative in any accounts in which the representative has a beneficial interest, including any accounts for any immediate family or household members, is consistent with the Firm's fiduciary duty to its clients and consistent with regulatory requirements.

Each representative must identify any personal investment accounts and report all reportable transactions and investment activity on at least a quarterly basis to the Firm’s Compliance Officer, or other designated officer.

Background

The Advisers Act requires advisers to identify “advisory representatives,” the reporting of personal investments on a quarterly basis and the maintenance of records of personal securities transactions. Advisers to registered investment companies are required to adopt a Code of Ethics regarding personal investment activities under the Investment Firm Act.

In July 2004, the SEC adopted a new rule (Rule 204 A-1), similar to Rule 17j-1 under the Investment Firm Act, requiring SEC advisers to adopt a code of ethics that would require, among other things, setting ethical standards and compliance with the securities laws, safeguarding material nonpublic information about clients' transactions and portfolio holdings, initial and annual reports of securities holdings for access persons, and Form ADV Part II summary disclosure about the adviser's code of ethics.

The effective date of new rule 204 A-1 is 8/31/2004 and the compliance date is 1/7/2005.

An investment adviser's policies and procedures represent an internal control and supervisory review to detect and prevent possible inside trading, conflicts of interests and possible regulatory violations.

Responsibility

The Compliance Officer or his designee has the responsibility for the implementation and monitoring of our policy on personal securities transactions and activities, practices, disclosures and recordkeeping.
**Procedure**

The Firm has adopted procedures to implement the Firm’s policy on personal securities transactions and reviews to monitor and insure the Firm’s policy is observed, implemented properly and amended or updated, as appropriate, which include the following:

- Representatives are to identify any personal investment account and any accounts in which the representative has a beneficial interest, including any accounts for the immediate family and household members, upon hire, annually thereafter and upon opening or closing any account(s).

- Representatives must report all required information for covered personal securities transactions on a quarterly basis within 10 days of the end of each calendar quarter to the Compliance Officer or other designated officer.

- All personal securities transactions are covered except transactions in direct obligations of the Government of the United States, banker’s acceptances, bank certificates of deposit, commercial paper and high quality short-term debt instruments, or shares issued by registered affiliated or unaffiliated open-end investment companies.

- The Compliance Officer will review all representatives’ reports of personal securities transactions for compliance with the Firm’s policies, including the Insider Trading Policy, regulatory requirements and the Firm’s fiduciary duty to its clients, among other things.

**Regulatory Reference:** Personal Securities Transactions & Records

Sec. 204 A of the Investment Advisers Act of 1940 requires:

Every investment adviser subject to Section 204 of this title shall establish, maintain, and enforce written policies and procedures reasonably designed, taking into consideration the nature of such investment adviser's business, to prevent the misuse in violation of this Act or the Securities Exchange Act of 1934, or the rules or regulations thereunder, of material, nonpublic information by such investment adviser or any person associated with such investment adviser. The Commission, as it deems necessary or appropriate in the public interest or for the protection of investors, shall adopt rules or regulations to require specific policies or procedures reasonably designed to prevent misuse in violation of this Act or the Securities Exchange Act of 1934 (or the rules or regulations thereunder) of material, nonpublic information.
Under the books and records section of the Advisers Act (Rule 204-2 (a) (12) and (13)), investment advisers are required to maintain records, within 10 days of quarter's end, of the personal securities transactions of this Firm, its officers, directors and representatives, the spouses, minor children, and members of the households of those officers, directors and representatives, as well as any securities transactions in which an officer, director or representative may have a direct or indirect beneficial interest*.

*Such persons are deemed to have beneficial interest of a security if they (a) have voting or dispositive power with respect to the security AND (b) have a direct or indirect pecuniary interest in the security.

The rules require maintaining a record of every transaction in a security with the following information to be maintained in the record:

- title and amount of the security involved;
- date of the transaction;
- nature of the transaction (purchase or sale);
- price at which the trade was effected; and
- name of the broker-dealer or bank that executed the transaction.

This information is required to be recorded not later than 10 days after the calendar quarter in which effected. The rules provide that acceptable records can be a broker trade confirmation, account statement or other records of the adviser so long as they contain the required information, are received within 10 days of the calendar quarter in which the trades are effected and are well organized for access. In addition, a system for review of personal securities transactions for all officers, directors, representatives with access to investment information, and their immediate families needs to be implemented and maintained to determine if representatives are trading on the market impact made by recommended transactions.

The rules require the reporting of all securities transactions, including listed and unlisted securities, private transactions (which include private placements, non-public stock or warrants) and securities which are not custodied (held in certificate form) in these personal reports.

The following types of transactions by an adviser or its representatives and associated persons (covered persons) are not required to be reported to and maintained by the adviser in its records for personal transactions in:

- direct obligations of the United States Government;
- open-end investment company shares, including money market mutual funds, whether affiliated or non-affiliated;
- banker’s acceptances, bank certificate of deposits, commercial paper and high quality short-term debt instruments, including repurchase agreements; and
• interests in variable insurance products or variable annuities, whether affiliated or unaffiliated.

It is recommended that investment adviser procedures include periodic (semi-annual or annual) listings of all members of the covered person's immediate household and of all accounts which are held by these individual(s).

In addition, advisers should require that all personnel annually sign an acknowledgment and agreement to comply with the Firm’s policies and procedures, disclose any outside business/other activities, non-custodial securities holdings, and the personal securities accounts for any members of their immediate household and current “beneficial ownership” accounts.

**Personal Investing by Investment Advisory Personnel**

The personal trading and investment activities of representatives of investment advisory firms are the subject of various federal securities laws, rules and regulations. Underlying these requirements is the fiduciary capacity in which an investment adviser acts for clients. A fiduciary has a duty of loyalty to clients which requires that the adviser act for the best interests of the clients and always place the clients' interests first and foremost.

When investment advisory personnel invest for their own accounts, conflicts of interest may arise between the client's and the representative's interests. The conflicts may include taking an investment opportunity from the client for an representative's own portfolio, using an representative's advisory position to take advantage of available investments, or front-running, which may be an representative trading before making client transactions, thereby taking advantage of information or using client portfolio assets to have an effect on the market which is used to the representative's benefit.

The securities laws and regulations that cover the personal trading and investment activities of advisory personnel include: a) the anti-fraud provisions (Section 206) of the Advisers Act which prohibit any scheme, practice, transaction or a course of business that operates as a fraud or deceit on a client; b) Form ADV and Rule 204-3 requirements which provide that an adviser disclose its practices and its interests in client transactions, among other things; c) recordkeeping requirements (Rule 204-2(a)(12) of the Advisers Act) for the personal trading of advisory representatives described in further detail below; and d) requirements under Rule 17j-1 of the Investment Firm Act of 1940 for a code of ethics for advisers to investment companies.

Amendments to Rule 17j-1 adopted by the SEC and effective October 29, 1999, expand the reporting of personal securities transactions by persons having access to information about a mutual fund’s investment activities and the responsibilities of the fund organization and its board of directors to approve and monitor the codes of ethics of advisers to mutual funds. Among many other things, an adviser to mutual funds must have its code of ethics approved by the fund’s board, obtain more information about the

In July 2004, the SEC adopted a new rule (Rule 204 A-1) requiring SEC advisers to adopt a code of ethics that would require, among other things;

1. setting ethical standards for supervised persons and the Firm, and require compliance with the securities laws;
2. safeguarding of material nonpublic information about client transactions and portfolio holdings;
3. define "access persons" and require them to report their securities holdings on an initial, and annual basis and report securities transactions on a quarterly basis;
4. amending Form ADV Part II, as proposed, to require advisers to disclose a summary of the Firm's code of ethics and offer to provide it upon a client's request;
5. defining reportable securities as all securities except for five categories and require reporting of open-end US mutual fund transactions and holdings for access persons when the adviser, or a control affiliate act as adviser or underwriter to the mutual fund.

The effective date of the new rule is 8/31/2004 and the compliance date is 1/7/2005 (SEC Release IA-2256, 7/2/2004).

Investment Firm Institute Report and Recommendations

During 1994, a special Advisory Group of the Investment Firm Institute (ICI) reviewed the practices and standards covering personal investing and made a number of recommendations for the investment company industry and their investment advisers to protect the interests of investors. While the ICI recommendations are designed for investment advisers to investment companies, they may be considered and used as a model for any investment advisory firm.

The recommendations made by the ICI Advisory Group include the following:

1. the preparation of a statement of fiduciary principles to be included in a firm's code of ethics as to the priority of client interests and conducting personal trading to avoid conflicts of interests.

2. restrictions on personal trading by advisory personnel as follows:
a. a prohibition of any advisory personnel investing in initial public offerings to avoid a possibility of an representative profiting from a position on behalf of a client;
b. a procedure for the prior review and approval of any private placement investment by any advisory person;
c. establishing a blackout period policy to provide that advisory persons may execute personal transactions in particular securities only after client orders are completed;
d. a restriction on investment personnel that only gifts of de minimis value may be accepted; and
e. a prohibition on investment personnel serving as directors of publicly traded companies without prior approval based on the interests of the investment company/clients.

3. Certain compliance procedures were also recommended as:
   a. establishing a pre-clearance approval process for all personal securities transactions;
   b. a requirement that all advisory personnel have duplicate statements and confirmations for their personal accounts sent to the Firm's compliance officer;
   c. an NASD rule to be proposed to require any broker-dealer to notify an adviser when any representative opens a brokerage account;
   d. establishing procedures for the review of personal investment activity of advisory personnel after the pre-clearance process;
   e. an initial and annual disclosure of all personal securities holdings by advisory personnel;
   f. an annual certification by advisory personnel as to their understanding and compliance with the Firm's code of ethics; and
   g. an annual report to the board of directors as to existing policies on personal trading, any proposed changes, and any violations and any actions taken by management.

SEC Report and Recommendations on Personal Investing

Also during 1994, the SEC examined a number of mutual fund complexes, reported on their findings and made several recommendations for investment adviser procedures covering the personal investment activities of investment company personnel. The recommendations are summarized below and should be considered by investment advisory firms which serve advisory clients other than investment companies in establishing policies and procedures for personal trading and investments by advisory personnel.
Certain of the SEC recommendations were similar to the ICI recommendations and included:

- a public disclosure of policies and procedures regarding personal investments by advisory personnel;
- expanded review of a firm's code of ethics by its board of directors;
- disclosure of personal securities holdings upon employment of advisory personnel;
- notification of new representative accounts by broker-dealers and forwarding duplicate statements and confirmations for advisory personal accounts to the adviser firm;
- consideration of prohibiting advisory persons from purchasing hot issues; and
- expanding the law covering mutual fund codes of ethics to include the purchase and sale of property other than securities, such as futures and commodities.

**Elements for an Investment Adviser Code of Ethics**

For investment advisers with clients which are investment companies, Section 17j-1 of the Investment Firm Act of 1940 requires an adviser to have a code of ethics and to include specific provisions for the code. For investment advisers which do not have such investment company clients and manage advisory clients only, a code of ethics may be considered as a good form of policy statement and firm procedures.

The important elements that would be included in an adviser's code of ethics for a firm are as follows:

1. A general statement of fiduciary principles, a loyalty to clients, and placing a client's interests first and foremost;
2. A designation of the various categories of advisory persons covered by the code, such as portfolio managers making investment decisions and those representatives with access to investment information;
3. The identification of the kinds of securities to be covered by and excluded from the code;
4. A statement of any limitations on an advisory person's personal trading;
5. Consideration of pre-clearance procedures for the prior approval of any transactions by advisory persons;
6. A reporting procedure for transactions and arrangements for duplicate statements and confirmations to be forwarded to a designated compliance officer;
7. A review and monitoring procedure for personal trading activity of advisory persons on a monthly or periodic basis after the pre-clearance procedure;
8. A description of any restricted or blackout periods for transactions by advisory persons;
9. A procedure for the annual review and updating of the code with representative education and certification as to compliance with the code;
10. A statement of possible sanctions that may be imposed for violations of policies and procedures established by the code; and
INSIDER TRADING

Policy

The Firm's policy prohibits any representative from acting upon, misusing or disclosing any material non-public information, known as inside information. Any instances or questions regarding possible inside information must be immediately brought to the attention of the Compliance Officer, designated officer or senior management, and any violations of the Firm’s policy will result in disciplinary action and/or termination.

Background

Various federal and state securities laws and the Advisers Act (Section 204A) require every investment adviser to establish, maintain and enforce written policies and procedures reasonably designed, taking into consideration the nature of such adviser’s business, to prevent the misuse of material, nonpublic information in violation of the Advisers Act or other securities laws by the investment adviser or any person associated with the investment adviser.

Responsibility

The Compliance Officer or his designee has the responsibility for the implementation and monitoring of the Firm’s Insider Trading Policy, practices, disclosures and recordkeeping.

Procedure

The Firm has adopted various procedures to implement the Firm’s insider trading policy and reviews to monitor and insure the Firm’s policy is observed, implemented properly and amended or updated, as appropriate, which include the following:

- The Insider Trading Policy is distributed to all representatives, and new representatives upon hire, and requires a written acknowledgement by each representative,

- All representatives must disclose personal securities accounts and report at least quarterly any reportable transactions in their representative and representative-related personal accounts,
• All representatives must report to the Compliance Officer or a designated person all business, financial or personal relationships that may result in access to material, non-public information,

• The Compliance Officer or a designated officer reviews all personal investment activity for representative and representative-related accounts,

• The Compliance Officer or a designated officer provides guidance to representatives on any possible insider trading situation or question,

• The Firm's Insider Trading Policy is reviewed and evaluated on a periodic basis and updated as may be appropriate, and

• The Compliance Officer or a designated officer prepares a written report to management and/or legal counsel of any possible violation of the Firm’s Insider Trading Policy for implementing corrective and/or disciplinary action.

Regulatory Reference: Insider Trading

Section 204 of the Advisers Act and the Insider Trading and Securities Fraud Enforcement Act of 1988 ("ITSFEA") require an investment adviser to establish, maintain and enforce written policies and procedures designed to prevent the misuse of material nonpublic information by its directors, officers and representatives.

When ITSFEA was passed by the House of Representatives, the Report of the House Committee on Energy and Commerce on the Insider Trading and Securities Fraud Enforcement Act of 1988 (the "House Report") listed various policies and procedures that investment advisers need to adopt to prevent insider trading in their firms. Among these policies and procedures are restricting access to files likely to contain nonpublic information, providing continuing education programs concerning insider trading, restricting or monitoring trading in securities about which the Firm's representatives might possess nonpublic information, and monitoring and reviewing trading for the Firm and individuals as well as policies that require personnel to conduct their personal trading through in-house accounts or to report such trading expeditiously to their firms.

The creation of a clear policy prohibiting insider trading (carefully disseminated in writing to the entire staff) is the best offensive position an investment adviser firm can take to avoid potentially severe risks and consequences.

No officer, director or representative of an adviser may buy or sell securities for his or her personal portfolio or for the portfolios of others where his or her decision is substantially influenced by material information derived, in whole or in part, by reason of his or her employment unless the information is also available to the investing public on reasonable inquiry.
Any person having access to material and non-public corporate information violates anti-fraud provisions of the federal securities laws by effecting securities transactions without disclosure of the information.

"The obligation to disclose material information rests on the fact that information is intended only for a corporate purpose and not for personal benefit and also because of the inherent unfairness in not disclosing such information."

*SEC vs. Texas Gulf Sulphur Co., 401 F. 2nd. 833 (CA-2, 1968)*

The term 'material information' can be generally defined as (i) material the use of which by an insider constitutes a violation of Section 10(b) of the Exchange Act and Rule 10(b)-5 thereunder, (ii) information which in reasonable and objective contemplation might affect the value of the corporation's stock or securities, or (iii) information which, if known, would clearly affect 'investment judgment', or which directly bears on the intrinsic value of the company's stock. Material information need not be limited to information which is translatable into earnings.

*Regulation of Deceptive Devices - Sec. 10(b)*

To avoid possible violations, investment advisers must exercise great care in their supervision of representatives and in the securities transactions of their personnel. If there is any question as to whether a contemplated purchase or sale would violate the insider trading rules, the representative must consult with the Firm's counsel, compliance officer, or management prior to executing the transaction.

For advisory firms that may have any person who also serves on a board of directors of another company, especially a public company, that may be owned by clients or associated persons or recommended to clients, special written procedures are required to address the person's and firm’s access to inside information about the company to avoid regulatory sanctions. (See In the Matter of DePrince, Race & Zollo Inc., IA Release No. 2035, 6/12/2002 and In the Matter of Gabelli & Firm, Inc., IA Release No. 1457, 12/8/1994.)

Effective October 23, 2000, the SEC adopted Regulation FD (Fair Disclosure) (Release No. 34-43154 dated 8/15/2000) which governs the selective disclosure of material nonpublic information by issuers to certain persons such as securities market professionals, (e.g., analysts, traders, etc.) who may trade on such information. For “intentional selective disclosure,” the issuer must make simultaneous public disclosure, and for “non-intentional” selective disclosure, public disclosure must be made promptly.

Regulation FD also addresses the issue of insider trading liability for those trading on material nonpublic information (Rule 10b5-1) and liability for the breach of a family or non-business relationship when one misappropriates insider information (Rule 10b-2).
**Chinese Wall**

An investment adviser which employs persons in non-advisory capacities may need to have policies and procedures to restrict the flow of inside information, as well as confidential and proprietary information, from being misused or made available or disclosed to other persons or areas of the Firm which do not have a need to know the information.

Establishing a “Chinese Wall” and adopting a policy and procedure for the handling of inside, confidential or proprietary information assists in building a system reasonably designed to detect and prevent violations of rules, regulations and Firm policies.

An effective Chinese Wall policy and procedure allows for areas of a firm such as research, investment banking, trading, asset management or others to function independently without compromising a department’s ability to function because another area of the firm may have inside or confidential information, e.g., the investment advisory area is not compromised by certain confidential information the investment banking department has obtained in the course of a client relationship.

For an effective Chinese Wall policy, the persons covered by the policy should be identified, and there should be a procedure for the proper handling of such information. This would include “crossing the wall” procedures which establish a formal procedure to provide another person/department with the confidential information only after obtaining written clearance and approval from a designated person, e.g. legal/compliance officer and the department managers of each department involved.

The Chinese Wall policy should also include formal procedures to document approvals, reasons, durations and termination of any approvals, for any instances of individuals crossing the wall and obtaining inside, confidential or proprietary information among other things.
COMPLAINTS

Policy

As a registered adviser, and as a fiduciary to our advisory clients, our Firm has adopted this policy, which requires a prompt, thorough and fair review of any advisory client complaint, and a prompt and fair resolution which is documented with appropriate supervisory review.

Background

Based on an adviser's fiduciary duty to its clients and as a good business practice of maintaining strong and long-term client relationships, any advisory client complaints of whatever nature and size should be handled in a prompt, thorough and professional manner. Regulatory agencies may also require or request information about the receipt, review and disposition of any written client complaints.

Responsibility

The Firm's Compliance Officer or designated officer has the primary responsibility for the implementation and monitoring of the Firm's complaint policy, practices and recordkeeping for the Firm.

Procedure

The Firm has adopted procedures to implement the Firm's policy and reviews to monitor and insure the Firm's policy is observed, implemented properly and amended or updated as appropriate, which include the following:

- The Firm maintains a Complaint File for any written complaints received from any advisory clients.
- Any person receiving any written client complaint is to forward the client complaint to the Firm's Compliance Officer or designated officer.
- If appropriate, the Compliance Officer or designated officer will promptly send the client a letter acknowledging receipt of the client's complaint letter indicating the matter is under review and a response will be provided promptly.
- The Compliance Officer or designated officer will forward the client complaint letter to the appropriate person or department, depending on the nature of the complaint, for research, review and information to respond to the client complaint.
- The Compliance Officer or designated officer will then either review and approve or draft a letter to the client responding to the client's complaint and providing background information and a resolution of the client's complaint. Any appropriate supervisory review or approval will be done and noted.
- The Compliance Officer or designated officer will maintain records and supporting information for each written client complaint in the Firm's complaint file.

**Regulatory Reference:** Complaints

Based on an adviser’s fiduciary duty to its clients, and as a best business practice of maintaining strong and lasting client relationships, any advisory client complaints, of whatever nature or size, should be handled in a prompt, thorough and professional manner. The SEC staff examiners will request and review records of any advisory client complaints, and certain states require complaint files as required books and records for state registered advisers in those states. These regulatory reviews will typically include information about the receipt, review and disposition of any written client complaints.

As a recommended and best business practice, advisers should maintain a complaint file, promptly acknowledge a client’s written complaint and conduct a thorough and prompt review of the subject matter of the complaint. Upon completion of the review, documentation should be maintained and a response letter sent to the client with a resolution or response to the client’s complaint. Any written client complaints should also receive the appropriate supervisory review.
REGULATORY REPORTING

Policy

As a registered investment adviser with the SEC, or appropriate state(s), the Firm's policy is to maintain the Firm’s regulatory reporting requirements on an effective and good standing basis at all times. The Firm also monitors, on an on-going and periodic basis, any regulatory filings or other matters that may require amendment or additional filings with the SEC and/or any states for the Firm and its representatives.

Any regulatory filings for the Firm are to be made promptly and accurately. Our Firm’s regulatory filings include Form ADV, Form 13D, 13F and 13G filings, among others that may be appropriate.

Background

Form ADV may serve as an adviser's Disclosure Document and is an adviser's registration document. Form ADV, therefore, provides information to the public and to regulators regarding an investment adviser. Regulations require that material changes to Form ADV be updated promptly and that Form ADV be updated annually.

Forms 13D, 13F and 13G are filings required under the Securities Exchange Act related to client holdings in equity securities.

Responsibility

The Compliance Officer or his designee has the responsibility for the implementation and monitoring of our regulatory reporting policy, practices, disclosures and recordkeeping.

Procedure

The Firm has adopted procedures to implement the Firm’s policy and reviews to monitor and insure the Firm’s policy is observed, implemented properly and amended or updated, as appropriate, which include the following:

- The Firm makes an annual filing of Form ADV within 90 days of the end of each fiscal year (Annual Updating Amendment) to update certain information required to be updated on an annual basis.
• The Firm promptly updates our Disclosure Document and certain information in Form ADV, Part 1 when material changes occur.

• All representatives should report to the Compliance Officer or other designated officer any information in Form ADV and/or the Disclosure Document that such representative believes to be materially inaccurate or omits material information.

• The Compliance Officer or his designee will review Forms 13D, 13F and 13G filing requirements and make such filings and keep appropriate records as required.

**Regulatory Reference:** Regulatory Reporting

**Amendments to Form ADV**

Form ADV instructions indicate that Form ADV must be amended:

**Promptly** for any changes in:
Part 1A - Items 1, 3, 9 or 11
Part 1B – Items 1, 2A through 2F., or 2I

**Promptly** for material changes in:
Part 1A - Items 4, 8 or 10
Part 1B – Item 2G.

Annually for all responses through the Annual Updating Amendment (within 90 days of fiscal year end). If submitting an other-than-annual amendment, an adviser is not required to update its responses to Item 2, 5, 6, 7, or 12 of Part 1A or Items 2H or 2J of Part 1B even if the responses to those items have become inaccurate.

Form ADV Part 1 amendments are filed electronically with the SEC. Form ADV Part II amendments in writing do not have to be filed with the SEC during this IARD phase in period. Part II ADV amendments may be required in state jurisdictions where the Firm is either a SEC registered adviser and must make notice filing(s) or is registered or has a registration application pending. State requirements vary as they phase into IARD. It is important to note also that the failure to make timely and appropriate notice filings and the payment of fees by a SEC registered adviser may entitle a state to require registration of the SEC adviser in that state.

**Amendments to U-4**

Advisory representatives must report any changes which require an amendment to Form U-4. Typically, this will be a change of home address, a married name (versus a maiden name), and any disciplinary matter, among other things.
**Form ADV-E**

Form ADV-E must be completed by investment advisers who possess (directly or indirectly) or have custody of client funds or securities. The ADV-E must be completed by an investment adviser and then given to an independent public accountant who examines client funds and securities in the custody or possession of the investment adviser. The accountant then submits the ADV-E along with the certificate of accounting required under Rule 206(4)-2(a)(5) of the Advisers Act to the SEC and applicable state regulators. Two copies should be filed with the SEC's principal office in Washington, DC and another copy with the appropriate SEC Regional Office. Other copies may be submitted to appropriate state regulators, as applicable.

**Form 13-D**

This schedule must be filed for any person, including advisers, who, after acquiring directly or indirectly a beneficial ownership of more than 5 percent of the outstanding shares of any equity security of a class registered pursuant to Subsection 12 of the Securities Exchange Act or any equity security of an insurance company relying on Subsection 12(g)(2)(G) or any closed-end investment company registered under the 1940 Act to report beneficial ownership with either the intent or effect of causing a change in control of an issuer. The Form must be filed within 10 days after such acquisition with (1) the SEC, (2) each exchange where the security is traded, and with (3) the principal office of the issuer. The duty to amend Form 13 D is found in Rule 13d-2 under the Securities Exchange Act.

Form 13D must be filed electronically (HTML or ASCII format) on the SEC’s EDGAR Filing System.

**Form 13-G**

Form 13-G may be filed in lieu of a Schedule 13-D if such person has acquired more than 5% of the outstanding shares of a security in the ordinary course of business and not with the purpose of changing or influencing control of the issuer and such person is a registered investment adviser or a specified type of institutional investor [Rule 13d-1(b)(1)(ii)(E)] under the Securities Exchange Act.

Schedule 13-G must be filed within 45 days after the end of calendar year in which the obligation arose and following each year end thereafter to report a change in position as long as the person continues to own a five percent position or more. The schedule need not be filed if the person does not own more than 5 percent at the end of the calendar year. If the person no longer holds such securities in the ordinary course of its business, and now holds it with the intent or effect of causing a change in control of the issuer, the person must promptly file a Form 13-D. The duty to amend 13-G is found in Rule 13d-2 of the Securities Exchange Act.
An initial or amended filing is required within 10 days of the end of any month in which a person acquires more than 10% of the outstanding shares of an issuer or if a reportable position increases or decreases by more than 5%.

The phrase "beneficial ownership," as defined in Rule 13d-2, includes any person who directly or indirectly has or shares:

i. voting power, which includes the power to vote, or to direct the voting of such security; and/or
ii. investment power, which includes the power to dispose, or to direct the disposition of such security.

Form 13G must be filed electronically (HTML or ASCII format) on the SEC’s EDGAR Filing System.

**Form 13-F**

This form must be filed by an institutional investment manager that exercises investment discretion with respect to accounts holding exchange traded or NASDAQ quoted equity securities having an aggregate fair market value of at least $100 million on the last trading day of any month. Any person subject to this provision must initially file within 45 days after the last day of the year in which $100 million is obtained and thereafter 45 days after the end of each subsequent quarter. Once an adviser is obligated to make a 13F filing the adviser must continue to make quarterly filings for as long as the adviser continues to manage $100 million of the equity securities on a discretionary basis. There are some provisions for the confidentiality of these reports, e.g., open risk arbitrage positions. [See §13(f)(3) of the Securities Exchange Act and Part D of the General Instructions accompanying Form 13F].

Form 13F must be filed electronically (ASCII format only) on the SEC’s EDGAR Electronic Filing System.

**Annual Updating Amendment**

SEC and state registered advisers filed on IARD are required to amend Form ADV Part 1 electronically on IARD which now contains the eligibility information, formerly required by the annual Schedule I filing, for both new advisers applying for SEC registration and existing SEC advisers. This filing is referred to as an “annual updating amendment” and must be filed electronically within 90 days of the adviser’s fiscal year end.

**Form ADV-W**

Form ADV-W is used to withdraw registration as an investment adviser with the SEC and states. With the creation of the new IARD in January 2001 and the new Form ADV Part 1 and ADV-W, SEC and state registered advisers must now make any Form ADV-W filing electronically on the IARD. Advisers may make either a “Full Withdrawal,” which
terminates their registration with all regulators, or a “Partial Withdrawal,” which
terminates registrations with certain, but not all, regulators; i.e., deleting state notice
filings, state registration(s), or converting from/to SEC or state registration.
CORPORATE RECORDS

Policy

As a registered investment adviser and legal entity, the Firm has a duty to maintain accurate and current “Organization Documents.” As a matter of policy, the Firm maintains all Organization Documents, and related records at its principal office. All Organization Documents are maintained in a well-organized and current manner and reflect current directors, officers, members or partners, as appropriate. Our Organization Documents will be maintained for the life of the Firm in a secure manner and location and for an additional three years after the termination of the Firm.

Background

Organization Documents, depending on the legal form of an adviser, may include the following, among others:

- Articles of Incorporation, By-laws, etc (for corporations)
- Agreements and/or Articles of Organization (for limited liability companies)
- Partnership Agreements and/or Articles (for partnerships and limited liability partnerships)
- Charters
- Minute Books
- Stock certificate books/ledgers
- organization resolutions
- any changes or amendments of the Organization Documents

Responsibility

The Compliance Officer or his designee has the responsibility for the implementation and monitoring of our Organization Documents policy, practices, and recordkeeping.

Procedure

The Firm has adopted procedures to implement the Firm's policy and reviews to monitor and insure the Firm's policy is observed, implemented properly and amended or updated, as appropriate, which include the following:
The Firm's Compliance Officer or designated officer will maintain the Organization Documents in the Firm's principal office in a secure location. Organization Documents will be maintained on a current and accurate basis and periodically reviewed and updated by the Compliance Officer or designated officer so as to remain current and accurate with the Firm's regulatory filings, among other things.

**Regulatory Reference:** General Corporate Records

Corporate/partnership LLC/LLP organization documents need to be maintained at the adviser's principal office and kept current (such as corporate election of officers, directors, minutes, stock register or all appropriate partnership/-LLC documents). This information relating to officers, directors, partners, etc., needs to be promptly and correctly reflected on Form ADV, Schedule A, Schedule B, or Schedule C, as appropriate.
BOOKS AND RECORDS

**Policy**

As a registered investment adviser, the Firm is required, and as a matter of policy, maintains various books and records on a current and accurate basis which are subject to periodic regulatory examination. Our Firm’s policy is to maintain Firm and client files and records in an appropriate, current, accurate and well-organized manner in various areas of the Firm depending on the nature of the records.

The Firm's policy is to maintain required Firm and client records and files in an appropriate office of the Firm for the first two years and in a readily accessible facility and location for an additional three years for a total of not less than five years from the end of the applicable fiscal year. Certain records for the Firm’s performance, advertising and corporate existence are kept for longer periods. (Certain states may require longer record retention.)

**Background**

Registered investment advisers, as regulated entities, are required to maintain specified books and records. There are generally two groups of books and records to be maintained. The first group is financial records for an adviser as an on-going business such as financial journals, balance sheets, bills, etc. The second general group of records are client related files as a fiduciary to the Firm’s advisory clients and these include agreements, statements, correspondence and advertising, trade records, among many others.

**Responsibility**

The Compliance Officer or his designee has the overall responsibility for the implementation and monitoring of our books and records policy, practices, disclosures and recordkeeping for the Firm.

**Procedure**

The Firm has adopted procedures to implement the Firm’s policy and reviews to monitor and insure the Firm’s policy is observed, implemented properly and amended or updated, as appropriate, which include the following:
The Firm's designated officer, individual, or department manager(s), as may be appropriate, has the responsibility for the Firm's filing systems for the books, records and files required to be maintained by the Firm. The Firm's filing systems for records, whether stored in files or electronic media, are designed to meet the Firm’s policy, business needs and regulatory requirements as follows:

- Arranging for easy location, access and retrieval;
- Having available the means to provide legible true and complete copies;
- For records stored on electronic media, back-up files are made and such records stored separately;
- Reasonably safeguarding all files, including electronic media, from loss, alteration or destruction;
- Limiting access by authorized persons to the Firm's records and;
- Ensuring that any non-electronic records that are electronically reproduced and stored are accurate reproductions.
- Periodic reviews may be conducted by the designated officer, individual or department manager(s) to monitor the Firm's recordkeeping systems, controls, and Firm and client files.

**Regulatory Reference: Books & Records**

Advisers are required to keep and maintain certain books and records as appropriate for the Firm’s business, pursuant to Rule 204-2 of the Advisers Act, (for state registered advisers, state regulations for books and records typically follow or reference the Advisers Act requirements) as itemized below:

1. A journal or journals, including cash receipts and disbursements records, and any other records of original entry forming the basis of entries in any ledger.

2. General and auxiliary ledgers (or other comparable records) reflecting asset, liability, reserve, capital, income and expense accounts.

3. All check books, bank statements, canceled checks and cash reconciliations of the investment adviser.

4. All bills or statements (or copies thereof), paid or unpaid, relating to the business of the investment adviser as such. For example, copies of client checks both front and back or similar evidence of payment of invoices must be maintained by the adviser.

5. All trial balances, financial statements, and internal audit working papers relating to the business of such investment adviser.
6. A memorandum of each order given by the investment adviser for the purchase or sale of a security, of any instruction received by the investment adviser from the client concerning the purchase, sale, receipt or delivery of a particular security, and of any modification or cancellation of any such order or instruction.

Such memoranda shall:
   a. show the terms and conditions of the order (buy or sell);
   b. show any instruction, modification or cancellation;
   c. identify the person connected with the investment adviser who recommended the transaction to the client;
   d. identify the person who placed the order;
   e. show the account for which the transaction was entered;
   f. show the date of entry;
   g. identify the bank, broker or dealer by or through whom executed; and
   h. identify orders entered into pursuant to the exercise of the investment adviser's discretionary authority.

7. Originals of all written communications received and copies of all written communications sent by such investment adviser relating to (A) any recommendation made or proposed to be made and any advice given or proposed to be given, (B) any receipt, disbursement or delivery of funds or securities, or (C) the placing or execution of any order to purchase or sell any security; provided, however, (i) that the investment adviser shall not be required to keep any unsolicited market letters and other similar communications of general public distribution not prepared by or for the investment adviser, and (ii) that if the investment adviser sends any notice, circular or other advertisement offering any report, analysis, publication or other investment advisory service to more than 10 persons, the investment adviser shall not be required to keep a record of the names and addresses of the persons to whom it was sent; except that if such notice, circular or advertisement is distributed to persons named on any list, the investment adviser shall retain with the copy of such notice, circular or advertisement a memorandum describing the list and the source thereof.

8. A list or other record of all accounts in which the investment adviser is vested with any discretionary power with respect to the funds, securities or transactions of any client.

9. All powers of attorney and other evidences of the granting of any discretionary authority by any client to the investment adviser, or copies thereof.
10. All written agreements (or copies thereof) entered into by the investment adviser with any client or otherwise relating to the business of such investment adviser as such.

11. A copy of each notice, circular, advertisement, newspaper article, investment letter, bulletin or other communication that the investment adviser circulates or distributes, directly or indirectly, to 10 or more persons, (other than persons connected with such investment adviser), and if such notice, circular, advertisement, newspaper article, investment letter, bulletin or other communication recommends the purchase or sale of a specific security and does not state the reasons for such recommendation, a memorandum of the investment adviser indicating the reasons therefore.

12. Personal Securities Trades: A record of every transaction in a security in which the investment adviser or any advisory representative (as hereinafter defined) of such investment adviser has, or by reason of such transaction acquires, any direct or indirect beneficial ownership, except:

(A) transactions effected in any account over which neither the investment adviser nor any advisory representative of the investment adviser has any direct or indirect influence or control; and

(B) transactions in securities which are direct obligations of the United States; banker’s acceptances, bank certificates of deposit, commercial paper, and high quality short-term debt instruments, including repurchase agreements; or shares issued by registered open-end investment companies.

Such record shall state the title and amount of the security involved; the date and nature of the transaction (i.e., purchase, sale or other acquisition or disposition); the price at which it was effected; and the name of the broker dealer or bank with or through whom the transaction was effected. Such record may also contain a statement declaring that the reporting or recording of any such transaction shall not be construed as an admission that the investment adviser or advisory representative has any direct or indirect beneficial ownership in the security. A transaction shall be recorded not later than 10 days after the end of the calendar quarter in which the transaction was effected.

An investment adviser will be considered to have made the record required if:

a. The investment adviser receives a broker trade confirmation or account statement within 10 days after the end of the calendar quarter;

b. The broker trade confirmation, account statement or other records of the investment adviser contains all the information required by this section;
c. The investment adviser keeps the broker trade confirmation, account statement, and other records containing the information required in this section; and
d. All broker trade confirmations and account statements that are printed on paper and maintained for this section are organized in a manner that allows easy access to and retrieval of any particular confirmation or statement.

For purposes of this rule--
The term "advisory representative" shall mean any partner, officer or director of the investment adviser; any representative who makes any recommendation, who participates in the determination of which recommendation shall be made, or whose functions or duties relate to the determination of which recommendation shall be made; any representative who, in connection with his duties, obtains any information concerning which securities are being recommended prior to the effective dissemination of such recommendations or of the information concerning such recommendations; and any of the following persons who obtain information concerning securities recommendations being made by such investment adviser prior to the effective dissemination of such recommendations or of the information concerning such recommendations: (i) any person in a control relationship to the investment adviser, (ii) any affiliated person of such controlling person and (iii) any affiliated person of such affiliated person.

"Control" shall have the same meaning as that set forth in Section 2(a)(9) of the Investment Firm Act of 1940, as amended.

An investment adviser shall not be deemed to have violated the provisions of this rule because of his failure to record securities transactions of any advisory representative if he establishes that he instituted adequate procedures and used reasonable diligence to obtain promptly reports of all transactions required to be recorded.

13. Personal Securities Trades: Comparable but lesser requirements for personal trading records for advisers primarily engaged in a business other than advisory services are provided for in this section of the rule.  
14. Disclosure Brochures/Form ADV Part II: A copy of each written statement and each amendment or revision thereof, given or sent to any client or prospective client of such investment adviser in accordance with the provisions of Rule 204-3 under the Act, (the so-called "Brochure Rule") and a record of the dates that each written statement, and each amendment or revision thereof, was given, or offered to be given, to any client or prospective client who subsequently becomes a client.

15. For clients obtained through a referral fee arrangement (the SEC's so-called "Cash Solicitation Rule"): All written acknowledgments of receipt obtained from clients (pursuant to SEC Rule 275.206(4)-3(a)(2)(iii)(B)) and copies of the disclosure documents delivered to clients by solicitors pursuant to SEC Rule 275.206(4)-3.
16. Performance advertising: All accounts, books, internal working papers, and any other records or documents that are necessary to form the basis for or demonstrate the calculation of the performance or rate of return of any or all managed accounts or securities recommendations in any notice, circular, advertisement, newspaper article, investment letter, bulletin or other communication that the investment advisercirculates or distributes, directly or indirectly, to 10 or more persons (other than persons connected with such investment adviser); provided, however, that, with respect to the performance of managed accounts, the retention of all account statements, if they reflect all debits, credits, and other transactions in a client's account for the period of the statement, and all worksheets necessary to demonstrate the calculation of the performance or rate of return of all managed accounts shall be deemed to satisfy the requirements of this paragraph.

17. Compliance policies and procedures: A copy of the adviser's current compliance policies and procedures required under SEC Rule 206(4)-7 and for the past five years and records documenting the adviser's annual review of the policies and procedures.

18. For advisers with custody of funds or securities:

If an investment adviser has custody or possession of securities or funds of any client, the records required to be made and kept above shall also include:

a. A journal or other record showing all purchases, sales, receipts and deliveries of securities (including certificate numbers) for such accounts and all other debits and credits to such accounts.

b. A separate ledger account for each such client showing all purchases, sales, receipts and deliveries of securities, the date and price of each such purchase and sale, and all debits and credits.

c. Copies of confirmations of all transactions effected by or for the account of any such client.

d. A record for each security in which any such client has a position, which record shall show the name of each such client having any interest in each security, the amount or interest of each such client, and the location of each such security.

19. For investment advisers that provide "Investment Supervisory Services" or otherwise manage client portfolios: Every investment adviser who renders any investment supervisory or management service to any client shall, with respect to the portfolio being supervised or managed and to the extent that the information is reasonably available to or obtainable by the investment adviser, make and keep true, accurate and current:

a. Records showing separately for each such client the securities purchased and sold, and the date, amount and price of each such purchase and sale.
b. For each security in which any such client has a current position, information from which the investment adviser can promptly furnish the name of each such client, and the current amount or interest of such client.

20. Proxy records: For SEC advisers exercising proxy voting authority for client securities, advisers must make and retain:

a. proxy policies and procedures,

b. proxy statements received, through advisers may rely on third parties that have provided an undertaking to provide copy of proxy statements, or EDGAR filing records,

c. records of proxy votes cast for clients, though third parties may be relied upon that have provided an undertaking to promptly provide proxy voting records,

d. documents created by the adviser that were material for proxy voting decisions or that memorialize the decision, and

e. records of any client requests for information on how a client's proxies were voted and records of the adviser's responses to client requests.

21. Any records maintained by the adviser for the identity of any client to whom the adviser provides investment supervisory services which is indicated by numerical or alphabetical code or some other designation.

22. Partnership articles and any amendments thereto, articles of incorporation, charters, minute books, and stock certificate books of the investment adviser and of any predecessor, shall be maintained in the principal office of the investment adviser and preserved until at least three years after termination of the enterprise.

23. If an adviser is also registered as a broker-dealer:

Any book or other record made, kept maintained and preserved in compliance with Rules 17a-3 [17 CFR 240.17a-3] and 17a-4 [17 CFR 240.17a-4] under the Securities Exchange Act of 1934, which is substantially the same as the book or other record required to be made, kept, maintained and preserved under this investment adviser rule, shall be deemed to be made, kept, maintained and preserved in compliance with this rule.

24. A record made and kept pursuant to any provision of this rule, which contains all the information required under any other provision, need not be maintained in duplicate in order to meet the requirements of the other provision of the rule.
25. As used in this rule the term "discretionary power" shall not include discretion as to the price at which or the time when a transaction is or is to be effected, if, before the order is given by the investment adviser, the client has directed or approved the purchase or sale of a definite amount of the particular security.

26. Records maintenance if adviser is discontinuing business:

An investment adviser, before ceasing to conduct or discontinuing business as an investment adviser, shall arrange for and be responsible for the preservation of the books and records required to be maintained and preserved under this rule for the remainder of the period specified in this rule, and shall notify the Commission in writing, at its principal office of the exact address where such books and records will be maintained during such period.

27. For Foreign Advisers:

Each non-resident investment adviser registered or applying for registration pursuant to Section 203 of the Advisers Act shall keep, maintain and preserve, at a place within the United States designated in a notice by the adviser as provided in paragraph (j)(2), true, correct, complete and current copies of books and records which he is required to make, keep current, maintain or preserve pursuant to any provision of any rule or regulation of the Commission adopted under the Advisers Act.

Except as provided in paragraph (j)(3), each non-resident investment adviser shall furnish to the Commission a written notice specifying the address of the place within the United States where the copies of the books and records required to be kept and preserved by him pursuant to paragraph (j)(1) are located. Each non-resident broker or dealer registered or applying for registration when this paragraph becomes effective shall file such notice within 30 days after such rule becomes effective. Each non-resident investment adviser who files an application for registration after this paragraph becomes effective shall file such notice with such application for registration.

Notwithstanding the provisions of paragraphs (j)(1) and (j)(2), a non-resident investment adviser need not keep or preserve within the United States copies of the books and records referred to in said paragraphs (j)(1) and (j)(2), if:

a. Such non-resident investment adviser files with the Commission, at the time or within the period provided by paragraph (j)(2), a written undertaking, in form acceptable to the Commission (see SEC Rule 204 2(j)(1)) and signed by a duly authorized person, to furnish to the Commission, upon demand, at its principal office in Washington, D. C., or at any Regional Office of the Commission.
designated in such demand, true, correct, complete and current copies of any or all of the books and records which he is required to make, keep current, maintain, or preserve pursuant to any provision of any rule or regulation of the Commission adopted under the Act, or any part of such books and records which may be specified in such demand.

AND

b. Such non-resident investment adviser furnishes to the Commission, at his own expense 14 days after written demand therefore forwarded to him by registered mail at his last address of record filed with the Commission and signed by the Secretary of the Commission or such other person as the Commission may authorize to act in its behalf, true, correct, complete and current copies of any or all books and records which such investment adviser is required to make, keep current or preserve pursuant to any provision of any rule or regulation of the Commission adopted under the Act, or any part of such books and records which may be specified in said written demand. Such copies shall be furnished to the Commission at its principal office in Washington, D.C., or at any Regional Office of the Commission which may be specified in said written demand.

**Electronic Delivery of Required Records**

In most instances, books and records are created, delivered and maintained in paper format, though technology, the industry and regulators are recognizing and moving toward electronic media and records.

In a SEC Interpretive Release, (Use of Electronic Media by Broker-Dealers, Transfer Agents and Investment Advisers, SEC Release 34-37182, IA-1562, dated 5/9/96) guidance was provided to investment advisers, broker/dealers and other regulated entities, for ways to deliver and/or receive and store required disclosures, documents and other written items to clients, e.g., Form ADV Part II, by electronic media. A number of conditions must be met, such as notice to the client, client consent/acknowledgement, procedures, and other requirements as indicated in the SEC Release.

**Retention of Records**

Investment advisers are required to maintain books and records as follows:
A. **Retention Period**

All books and records must be kept for a period of not less than five (5) years from the end of the applicable fiscal year. They must be retained in an appropriate office of the adviser during the first two (2) years and be accessible for the remaining three (3) years.

B. **Performance Records**

These records must be maintained and preserved in an easily accessible place for a period of not less than five (5) years, the first two (2) years in an appropriate office of the investment adviser, from the end of the fiscal year during which the investment adviser last published or otherwise disseminated, directly or indirectly, the notice, circular, advertisement, newspaper article, investment letter, bulletin or other communication.

C. **Maintenance of Electronic Records**

Rule 204(g) of the Advisers Act allows advisers to store records in an electronic medium. Amended in May 2001, the rule amendments incorporate prior SEC no-action letters about receiving, maintaining and optical scanning and storage of electronic records (SEC Interpretative Release No. IA1562, 5/9/96 and SEC No-action letter, *Oppenheimer Management Corp*, publicly available 8/25/95.)

SEC Rule 204(g) permitting micrographic and electronic storage of records provides:

(g) Micrographic and electronic storage permitted.

1. General. The records required to be maintained and preserved pursuant to this part may be maintained and preserved for the required time by an investment adviser on: (i) Micrographic media, including microfilm, microfiche, or any similar medium; or (ii) Electronic storage media, including any digital storage medium or system that meets the terms of this section.

2. General Requirements. The investment adviser must: (i) Arrange and index the records in a way that permits easy location, access, and retrieval of any particular record; (ii) Provide promptly any of the following that the Commission (by its examiners or other representatives) may request: (A) A legible, true, and complete copy of the record in the medium and format in which it is stored; (B) A legible, true, and complete printout of the record; and (C) Means to access, view, and print the records; and (iii) Separately store, for the time required for preservation of the original
Special requirements for electronic storage media. In case of records on electronic storage media, the investment adviser must establish and maintain procedures: (i) To maintain and preserve the records, so as to reasonably safeguard them from loss, alteration, or destruction; (ii) To limit access to the records to properly authorized personnel and the Commission (including its examiners and other representatives); and (iii) To reasonably ensure that any reproduction of a non-electronic original record on electronic storage media is complete, true, and legible when retrieved.

Electronic Communications/E-Mail

In an industry trend and current regulatory focus, electronic communications, e.g., e-mail, are now being treated as written communications and required records and correspondence under Rule 204(2)(a)(7) and must be kept in the required format and for the required periods. More recently, instant messaging communications have become subject to broker-dealer supervisory and recordkeeping requirements (NASD Notice to Members 03-33 dated 6/18/2003). Advisers’ policies regarding electronic communications should include e-mail and also should take into account instant messaging and other electronic technologies.
Rules promulgated under Section 206(4) of the Advisers Act pertain to "advertisements" and apply to SEC registered advisers. The SEC has defined advertisements to include any written communication directed to more than one person, or any notice or other announcement in any publication or by radio or television which offer any analysis, report or publication concerning securities or used to determine when to buy or sell securities or which securities to buy or sell; or any graph, chart, formula or other device used to determine when to buy or sell any securities or which securities to buy; or any other investment advisory service.

1. Advertising

Rule 206(4)-1 describes and details the various advertising practices which the Commission views as being fraudulent, deceptive and/or manipulative within the meaning of the Advisers Act. Pursuant to this rule, the following may not be contained in any advertisements by an investment adviser:

A. Testimonials concerning any advice or service of the adviser;

B. References to past specific recommendations of the adviser which were or would have been profitable to a person (excepting advertisements listing or offering to list all recommendations for at least one year together with certain required information and containing a required cautionary clause).

C. Representations that any graphs, charts, or formula or device can be used to determine which securities to buy or sell or when to buy or sell them unless accompanied by explicit disclosure regarding the limitations and serious difficulties and risks inherent with their use;

D. Any representation that a service will be provided free of charge unless there is in fact no condition or obligation; or

E. Any untrue statement of a material fact or which may be false and/or misleading.

While the term "misleading" is not specific in its intent, the Commission generally would base its determination on all the particular facts relative to the advertisement and would look carefully at the form and content of the advertisement, the implications or inferences which could reasonably be made from the advertisement in its total context and the overall sophistication of the audience who was receiving the advertisement.
Advertisements which compare performance to an index should include performance based on a relevant and meaningful index, and where performance is superior, the advertisement should note any special factors leading to this performance. Any information regarding rates of return must reflect performance gross or net of brokerage commissions, advisory fees and expenses as summarized in the following Performance Data Section.

All advertising and marketing materials must be consistent with the fees and services as described in the Firm’s current Form ADV and advisory agreements.

Some states may require pre- or post-filing of advertisements. State-registered advisers should review individual state requirements.

**Testimonials:** Testimonials are typically in the form of endorsements as to the adviser’s services or performance and are strictly prohibited.

Representative client lists may be testimonials and may not be used unless certain conditions are met as follows:

1. the adviser will not use performance based criteria to determine which clients to include in the list,
2. the client list will include the disclaimer “It is not known whether the listed clients approve or disapprove of the adviser or the advisory services,” and
3. each client list will include a statement disclosing the objective criteria used to determine which clients to include in the list.

The SEC provided these guidelines in the SEC No-action letter of *Denver Investment Advisers*, publicly available 7/30/93. (See also *Cambiar Investors, Inc.*, publicly available 8/28/97)

**Past Specific Recommendations:** Advisers may list or identify securities that were recommended in the past and that have become profitable only if the specific conditions of the rule are met. (The rule does not apply to current recommendations.) These conditions include offering or including a list of all securities recommended for the past year which must include specific information and disclosure that “It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities in this list.” (Rule 206(4)-1(2))

The SEC has indicated that certain communications to prospective clients, clients and consultants which include information about profitable and unprofitable past recommendations are not advertisements.
In the following circumstances, providing or offering to provide information about recommendations for the past year are not required and do not fall within the past specific recommendations rule:

1. written communications by advisers responding to unsolicited client, prospective client or consultant requests about profitable or unprofitable past recommendations; and

2. written communications by an adviser to existing clients about past specific recommendations that are or were held by those clients.

An adviser's communications to its existing clients about their portfolio holdings and transactions are not considered an advertisement unless the communication appears to be soliciting for or offering advisory services. (See SEC No-action letter to the Investment Counsel Association of America, publicly available 3/1/2004)

As a matter of good disclosure practices and in the proper fiduciary spirit, advisers should inform clients about both profitable and unprofitable past recommendations so as to be informed as to both sides of any performance attribution analysis or portfolio performance.

**List of Partial Current Recommendations:** Advisers may also distribute reports to clients and prospective clients which identify and discuss certain, but not all, securities bought, sold or managed by the adviser provided certain conditions are met. These conditions include using consistent and objective non-performance based criteria in selecting the securities, not disclosing profits or losses, including specific disclosures, and maintaining records among others. (See SEC No-action letter, Franklin Management, Inc. publicly available 12/10/98.)

**Article Reprints:** Reprints of newspaper or periodical articles about an adviser, or its personnel, are subject to the advertising rules and must not be misleading. (See SEC No-action letter, Kurtz Capital Management, publicly available 12/18/87)

**Client Survey Results:** An adviser’s use of client surveys in advertising or marketing materials which are conducted by an unbiased third party service provider will be viewed as a testimonial by the SEC. However, the SEC has indicated that such surveys could be used in an advertisement so long as the survey results represent a valid sample, involve no subjective analysis, do not favor positive or negative results and are otherwise consistent with regulatory requirements, among other things. (See the SEC No-action letter Dalbar, Inc. publicly available 3/24/98)

**Website:** Information provided in an adviser’s website is subject to the SEC advertising rules, and also any applicable state regulations. Website information must therefore be considered advertising and subject to the same policies and procedures for the review,
approval and retention of advertising and marketing materials.

Advertising or providing advisory services on the Internet may also result in a firm having to register the firm/investment adviser representatives in the states unless certain safeguards, checkpoints or disclosures are provided. State regulations should be checked for specific requirements.

2. Performance

The use of performance data in advertising and marketing materials is a highly complex subject and is carefully scrutinized by the SEC. The reason for the complexity of this subject is that to date the SEC has not established any fixed formulas for the calculation of investment adviser performance. In recent years, however, it has given advisers some guidelines as to what cannot be included in performance data used in advertisements.

In SEC No-action letter *Clover Capital Management, Inc.* (publicly available 10/28/86), the staff of the SEC's Division of Investment Management listed eleven practices which it holds to be inappropriate under the advertising rule of the Advisers Act. The staff was careful to state that this list is not exhaustive and that it does not create a safe harbor for practices not included in this list.

As stated in *Clover*, the anti-fraud provisions of Rule 206(4)-1 prohibit an advertisement that:

1. Fails to disclose the effect of material market or economic conditions on the results portrayed;

2. Includes model or actual results that do not reflect the deduction of advisory fees, brokerage or other commissions and any other expenses that a client would have paid or actually paid;

3. Fails to disclose whether and to what extent the results portrayed reflect the reinvestment of dividends and other earnings;

4. Suggests or makes claims about the potential for profit without also disclosing the possibility of loss;

5. Compares the model or actual results to an index without disclosing all material facts relevant to the comparison;

6. Fails to disclose any material conditions, objectives, or investment strategies used to obtain the results portrayed;

7. Fails to disclose prominently the limitations inherent in model results, particularly the fact that the results do not represent actual trading;
8. Fails to disclose, if applicable, that the conditions, objectives or investment strategies of the model portfolio changed materially during the time period portrayed in the advertisement and the effect of the change on the results portrayed;

9. Fails to disclose, if applicable, that any of the securities contained in or the investment strategies followed with respect to the model portfolio do not relate or partially relate to the type of advisory services currently offered by the adviser;

10. Fails to disclose, if applicable, that the adviser's clients had investment results materially different from the results portrayed in the model;

11. Fails to disclose, if applicable, that the results portrayed relate only to a select group of the adviser's clients, the basis on which the selection was made, and the effect of this practice on the results portrayed, if material.

Gross and Net of Fee Performance

In Investment Firm Institute (publicly available 8/24/87), the staff clarified Item 2 of the Clover list by stating that custodial fees did not have to be deducted from performance data. The staff held firm, however, to its requirement that brokerage commissions and advisory fees be deducted from performance data.

In a subsequent No-action letter (Investment Firm Institute, publicly available 9/23/88), the staff did grant an exemption to allow the use of gross performance numbers in one-on-one presentations to prospective clients, provided that four conditions are met. The staff requires that at the time of the one-on-one presentation, the client be presented with written disclosure stating that:

1. disclosure that the performance figures do not reflect the deduction of investment advisory fees;

2. disclosure that the client's return will be reduced by the advisory fees and any other expenses it may incur in the management of its advisory account;

3. disclosure that the investment advisory fees are described in Part II of the adviser's Form ADV; and

4. a representative example (e.g., a table, chart, graph, or narrative), which shows the effect an investment advisory fee, compounded over a period of years, could have on the total value of a client's portfolio.

Advisers who use investment consultants to market their services must instruct those consultants to give the same data and to provide the same written disclosure in one-on-one presentations. [It is advisable that all published material which includes "gross"
performance numbers contain appropriate legends stating "For use in one-on-one presentations only"].

Again, the above restrictions are non-inclusive. Even within these restrictions, questions as to the proper use of performance data still remain. For example, the staff has yet to define a "one-on-one presentation." However, the use of the U.S. mail is not a one-on-one presentation. Typically, a one-on-one presentation is intended to mean a confidential and private meeting between the adviser and a prospective client or a consultant (on behalf of the adviser) and a prospective client.

In the Association for Investment Management Research (AIMR) SEC No-Action Letter, publicly available 12/18/96, the staff addressed several questions concerning the use of performance numbers in advertising. One of the more significant comments in the letter concerned the combination of gross and net performance in advertisements.

The staff confirmed that, as previously noted in a staff memorandum on General Information on the Regulation of Investment Advisers (March 1996), an adviser would not necessarily violate the anti-fraud provisions of the Advisers Act if it distributed an advertisement containing both gross and net performance numbers. This position is based on representations that both sets of figures would:

1. receive equal prominence;
2. be presented in a format that permits easy comparisons; and
3. be accompanied by sufficient disclosure, such as a specific reference to the lack of inclusion of investment advisory fees and other expenses to prevent the numbers from being misleading.

Marketing materials may be developed in one format which can be used for one-on-one presentations and general (mass) marketing efforts.

**Wrap Accounts:** An adviser may combine wrap and non-wrap accounts into one composite and adjust the performance of the non-wrap accounts by deducting a “model wrap fee” equal to the highest fee charged for the wrap fee accounts contained in the composite.

**Inclusion of Mutual Funds in Advisory Composites:** An adviser may include mutual fund performance in an advisory composite, including those computed on a gross-of-fee basis, provided no particular fund is identified. These “generic” advisory advertisements would not be an investment company advertisement and would not be subject to rules under the Securities Act of 1933 or the Investment Firm Act of 1940.

**Multi-Manager Accounts:** Advisers may include in performance advertisements the portion of a multi-manager account for which the adviser is responsible. Net performance for that portion must be reduced by the transaction costs related to the adviser’s
management and all fees or charges paid to the adviser or its affiliates.

**AIMR Verifications:** In the past, many advisers had completed Level I and II verifications of their performance numbers in accordance to AIMR standards. Advisers should understand, however, that AIMR compliance for Level I and II verifications are not a substitute for compliance with the SEC standards outlined above. (NRS recommends that advisers provide all performance numbers for the required time periods, i.e., monthly, quarterly and annually. This would also include 1, 3, 5 and 10 year summaries). AIMR adopted Amended and Restated AIMR Performance Presentation Standards (AIMR-N.A. GIPS) in May 2001 which substantially changed existing AIMR standards. The new AIMR-N.A. Global Investment Performance Standards (GIPS) became effective 1/1/2002 and are designed to update, clarify and conform to the AIMR GIPS standards. The AIMR website (www.aimr.com) provides a helpful comparison matrix of changes to AIMR-PPS standards. Performance numbers used in advertising is always a priority area for close SEC scrutiny during examinations. Therefore, it may be advisable that all performance data be reviewed with counsel experienced in securities regulation before being published or presented to any current or prospective client.

**Performance Records**

The rules and regulations of the Advisers Act require advisers who use performance data in their advertisements to maintain the advertisements and all data supporting the performance figures for the entire performance period (i.e., if an adviser advertises performance for a 10 year period, then for that entire period). The records need to be maintained for a period of five years after the end of the fiscal year in which the advertisement/performance was last disseminated.

If the performance data is based on managed accounts, the adviser must retain all work sheets necessary to demonstrate the calculation of the performance data. In addition, all account statements (including accounts that were not used in the computation of the performance figures) reflecting all debits, credits and transactions in a client's account must be retained.

If the performance data is not based on managed accounts, the adviser is required to prepare and maintain whatever documents are needed to substantiate the performance data.

The advertisements and supporting documents must be maintained in an appropriate office for the first two fiscal years following the dissemination of the advertisement, and in an easily accessible place for the next three years or for a period of five years from the year last disseminated.

As an example, an adviser with a ten year performance record, must maintain required records for the entire length of the performance period, plus five years after the time the performance is no longer being disseminated.
Advertising Model and Actual Performance Results

The use of model or actual results in an advertisement is not fraudulent. In the SEC No-action letter, Clover Capital, summarized in the prior section on Performance, the SEC provided a non-inclusive list of prohibited advertising practices and disclosure factors required when advertising model or actual results.

The first six requirements apply to model and actual results and items 7-10 apply to model results; and item 11 applies to actual results.

In 1996, the SEC reversed its prior position to permit an adviser to use “model” advisory fees, rather than actual fees, in calculating its past performance for use in advertisements. Previously, the SEC viewed performance as per se misleading unless actual fees were deducted in calculating performance of actual accounts.

In the J.P. Morgan Investment Management No-action Letter, publicly available 5/7/96, the SEC stated model advisory fees may be used in calculating performance provided the “model” advisory fee is equal to the highest fee charged to any account employing the particular investment strategy during the performance period presented.

Recommended disclosures for the use of model advisory fees should include:

1. The performance data reflects the deduction of the highest fee charged for the specific investment strategy for the performance period represented;
2. Actual advisory fees may vary among clients with the same investment strategy; and
3. The adviser’s fee schedules are available in Form ADV Part II or upon request.

Portability of Performance Results

An adviser must closely consider a number of factors in determining whether the performance of a portfolio manager(s) at a prior firm may be utilized by the new firm, i.e., the “portability” of a manager’s performance results from one firm to another.

The SEC staff has stated in the Horizon Asset Management LLC No-action Letter, publicly available 9/13/96, that an advertisement that includes prior performance would not in and of itself be misleading under Rule 206(4)-1(A)(5) if the following conditions were satisfied:

1. The person or persons who manage accounts at the successor adviser were also primarily responsible for achieving the prior performance results;
2. The accounts managed at the predecessor are so similar to the accounts currently under management that the performance results would provide relevant information to prospective clients of the successor adviser;
3. All accounts that were managed in a substantially similar manner are advertised unless that exclusion of any such account would not result in materially higher performance;
4. The advertisement is consistent with staff interpretations with respect to the advertisement of performance results; and
5. The advertisement includes all relevant disclosures, including the fact that the performance results were from accounts managed at another entity.

Further, advisers must have possession of the necessary records from the prior frm to support the prior performance information.

**Use of the Terms "RIA" or "Investment Counsel"**

The SEC prohibits an adviser from representing or implying that it has been approved or endorsed by the SEC. An adviser may indicate that it is registered as an adviser and where applicable, as a broker. An adviser may not use the initials "RIA" (the adviser must spell out Registered Investment Adviser - Securities and Exchange Commission) because the use of these initials implies an educational or professional designation and is, therefore, misleading.

An investment adviser may not refer to itself as "investment counsel" or use the term to describe its business unless the "principal" business of the adviser is rendering investment advice and a substantial part of the adviser's business consists of rendering "investment supervisory services" as defined in Form ADV.

The determination of misleading or false statements is generally judged against a standard of fair and accurate disclosure in keeping with the fiduciary nature of the adviser-client relationship.
DISASTER RECOVERY

**Policy**

As part of its fiduciary duty to its clients and as a matter of best business practices, the Firm, has adopted policies and procedures for disaster recovery and for continuing the Firm's business in the event of a disaster. These policies are designed to allow the Firm to resume providing service to its clients in as short a period of time as possible. These policies are, to the extent practicable, designed to address those specific types of disasters that the Firm might reasonably face given its business and location.

**Background**

Since the terrorist activities of 9/11/2001, all advisory firms need to establish written disaster recovery and business continuity plans for the Firm’s business. This will allow advisers to meet their responsibilities to clients as a fiduciary in managing client assets, among other things. It also allows a firm to meet its regulatory requirements in the event of any kind of disaster, such as a bombing, fire, flood, earthquake, power failure or any other event that may disable the Firm or prevent access to our office(s).

**Responsibility**

The Compliance Officer or his designee is responsible for maintaining and implementing the Firm's Disaster Recovery and Business Continuity Plan.

**Procedure**

The Firm has adopted various procedures to implement the Firm’s policy and reviews to monitor and insure the Firm’s policy is observed, implemented properly and amended or updated, as appropriate, which include the following:

- The following individuals have the primary responsibility for implementation and monitoring of our Disaster Recovery Policy:

  The Compliance Officer or his designee is responsible for documenting computer back-up procedures, i.e., frequency, procedure, person(s) responsible, etc.
The Compliance Officer or his designee is responsible for designating back-up storage locations(s) and persons responsible to maintain back-up data in separate locations.

The Compliance Officer or his designee is responsible for identifying and listing key or mission critical people in the event of an emergency or disaster, obtaining their names, addresses, e-mail, fax, cell phone and other information and distributing this information to all personnel.

The Compliance Officer or his designee is responsible for designating and arranging for “hot,” “warm,” or home site recovery location(s) for mission critical persons to meet to continue business, and for obtaining or arranging for adequate systems equipment for these locations.

The Compliance Officer or his designee is responsible for establishing back-up telephone/communication system for clients, personnel and others to contact the Firm and for the Firm to contact clients.

The Compliance Officer or his designee is responsible for determining and assessing back-up systems for key vendors and mission critical service providers.

The Compliance Officer or his designee is responsible for conducting periodic and actual testing and training for mission critical and all personnel.

- The Firm's disaster recovery systems will be tested periodically.
- The Firm's Disaster Recovery Plan will be reviewed periodically, and on at least an annual basis, by the Compliance Officer or his designee.

**Regulatory Reference:** Disaster Recovery

**Disaster Recovery Planning**

Advisory firms which maintain records on electronic media, or otherwise, must meet specific rule requirements for preserving, backing-up Firm and client files and information, separately storing those back-up files, limiting access to the information and safeguarding it from loss, alteration or destruction.

As a result of these requirements, and since the terrorist activities of 9/11/2001, all advisory firms need to establish written disaster recovery and business continuity plans for the Firm’s business. This will allow advisers to meet their responsibilities to clients as
a fiduciary in managing client assets. It also allows a firm to meet its regulatory requirements in the event of any kind of disaster, such as a bombing, fire, flood, earthquake, power failure or any other event that may disable the Firm.

A well thought out Disaster Recovery Plan needs to be written, distributed to all representatives, tested and reviewed at least annually to update for any changes to have the Firm prepared in the event of any form of disaster.

An adviser’s Disaster Recovery Plan should consider and include the following, and any other factors, that may be of particular relevance to the Firm’s businesses or clients:

- document computer back-up procedures, i.e., frequency, procedure, person(s) responsible, etc.,
- designate back-up storage locations(s) and persons responsible to maintain back-up data in separate locations,
- consider the types of disasters that could occur and the impact on the Firm’s business, investment operations and mission critical service providers,
- include management, technology, operations, compliance, accounting, client service and administration personnel, and consultants, if appropriate, in developing a plan and establishing responsibilities,
- identify and list key or mission critical people in the event of an emergency or disaster with names, addresses, e-mail, fax, cell phone and other information and distribute to all personnel,
- designate and arrange for “hot,” “warm,” or home site recovery location(s) for mission critical persons to meet to continue business,
- recovery site facilities must be separate from principal offices(s) and a secure location,
- establish back-up telephone/communication system for clients, personnel and others to contact the Firm and for the Firm to contact clients,
- consider instant messaging, wireless or other technology for management, portfolio managers, traders, and mission critical personnel on a secure website, 800 number, alternative e-mail system and/or home computing for these persons,
- obtain or arrange for adequate systems equipment for remote location(s),
- ensure and test contingency plans for power, telephone, communication lines, systems, computer equipment, at remote recovery locations(s),
- determine and assess back-up systems for key vendors and mission critical service providers,
- conduct periodic and actual testing and training for mission critical and all personnel, and
- allocate sufficient time, staffing, resources and money for a successful plan.
An appropriate Disaster Recovery Plan is required for good business planning, meeting obligations to clients and addressing recent regulatory focus in this critical area. Additional information on business continuity is available on the following websites:

- www.sec.gov/rules/concept/34-46432.htm
- www.thebci.org (Association of Business Continuity Professionals/Consultants), and

www.businesscontinuity.com
DISCLOSURE DOCUMENT

Policy

The Firm, as a matter of policy, complies with relevant regulatory requirements and maintains our Disclosure Document on a current and accurate basis. Our Firm’s Disclosure Document provides information about the Firm’s advisory services, business practices, professionals, policies and any actual and potential conflicts of interest, among other things.

Background

As a registered investment adviser, the Firm has a duty to comply with the disclosure document delivery requirements of Rule 204-3(a) under the Advisers Act, or similar state regulations. An adviser's Disclosure Document may be Form ADV Part II or another document containing all of the information required by Form ADV Part II.

Responsibility

The Compliance Officer or designee has the responsibility for maintaining the Firm's Disclosure Document on a current and accurate basis, making appropriate amendments and filings, ensuring initial delivery of the Disclosure Document to new clients, sending the annual client offer of the Disclosure Document and maintaining all appropriate files.

Procedure

The Firm has adopted various procedures to implement the Firm’s policy and reviews to monitor and insure the Firm’s Disclosure Document policy is observed, implemented properly and amended or updated, as appropriate, which include the following:

1. Initial Delivery

   • A representative of the Firm will provide a copy of the Firm’s current Disclosure Document to each prospective client either: at the time of entering into an advisory agreement with a client; or, not less than 48 hours prior to entering into an advisory agreement with a client.
   • The Firm will maintain a document or acknowledgement evidencing delivery of the Disclosure Document to each client.
• The Compliance Officer will maintain dated copies of all the Firm's complete Disclosure Documents so as to be able to identify which Disclosure Document was in use at any time.

2. Annual Offer/Delivery

• The Firm will send a notice (Annual Offer) to all current advisory clients once each year, offering a current copy of the Firm’s Disclosure Document. Annual Offers will inform clients that the Firm will deliver its current disclosure to clients, upon client request.

• the Firm will maintain an “Annual Offer File” for each calendar year which will include:

  1. a sample copy of the Annual Offer,
  2. a copy of the Disclosure Document offered to clients for the particular year,
  3. a list of the names and addresses of the clients to whom the Firm sent an Annual Offer,
  4. a list/copies of client requests for the Firm's Disclosure Document, and
  5. Copies of the Firm's letters to clients sending the Disclosure Document, which will be sent within seven days of the receipt of any client request.

3. Review and Amendment

• The Compliance Officer or designated officer will review the Firm’s complete Disclosure Document on a periodic basis to maintain the Disclosure Document on a current and accurate basis and to properly reflect and be consistent with the Firm’s current services, business practices, fees, investment professionals, affiliations and conflicts of interest, among other things.

• When changes or updates to the Disclosure Document are necessary or appropriate, the Compliance Officer or designated officer will make any and all disclosure document amendments timely and promptly and maintain records of the filings and amendments.

**Regulatory Reference:** Disclosure Document

Under the Advisers Act (Rule 204-3(a)), an adviser is required to provide all clients and prospective clients with a written disclosure document. This document can be either Part II of Form ADV or a written document containing all material information included in Part II. Wrap fee clients must receive a separate wrap fee disclosure document referred to as a Schedule H brochure. The major purpose of this disclosure document is to inform clients about the adviser’s services, fees, business practices, and possible conflicts of interest and/or material affiliations.
General provisions of the rule:

1. **Delivery**, Rule 204-3(b) states: The disclosure document shall be delivered to an advisory client or prospective advisory client (i) not less than 48 hours prior to entering into any written or oral investment advisory contract with such client or prospective client, or (ii) at the time of entering into any such contract, if the advisory client has a right to terminate the contract without penalty within five business days after entering into the contract.

Copies of the disclosure document must be maintained in the client's file, or dated copies of all disclosure documents given to clients should be maintained in a cross reference file to establish which document was distributed to clients on a given date.

2. **Offer to Deliver**, Rule 204-3(c) states: An investment adviser annually shall, without charge, deliver or offer in writing to deliver upon written request to each of its advisory clients the disclosure document required by this section. Rule 204-3(c)(4) states further that: Any statement requested in writing by an advisory client pursuant to an offer required by this paragraph must be mailed or delivered within seven days of the receipt of the request.

Evidence of this annual offering must be maintained in the client's file or in a cross reference file indicating which clients the offer was sent to and the date on which it was sent. [Note: any requests for the disclosure document and the delivery of the document pursuant to the requests need to be documented and the records maintained.]


A new Form ADV Part 2 is being developed by the SEC in a narrative plain English format, which will also be phased in for electronic filing on the IARD in the future.

Advisers must file the new Form ADV Part 1 and any amendments electronically on the IARD and continue to update, provide and annually offer the current Form ADV Part II to clients. During this transition period, Form ADV Part II does NOT have to be filed with the SEC but must be kept current, provided to prospective clients, annually offered to existing clients and made available during SEC examinations. Most states’ requirements will be the same.
4. Recordkeeping Requirements; In addition, Rule 204-2 (a)(14) (Books and Records) states that advisers must maintain: A copy of each written statement and each amendment or revision thereof, given or sent to any client or prospective client of such investment adviser in accordance with the provisions of Rule 204-3 under the Act, and a record of the dates that each written statement, and each amendment or revision thereof, was given, or offered to be given, to any client or prospective client who subsequently becomes a client.

The Advisers Act does not specifically require that proof of the client's receipt of the brochure be maintained (except when a prospective client is solicited by an outside solicitor under Rule 206(4)-3 (See Cash Solicitation Rule). In a solicitation arrangement, an original, signed and dated acknowledgment and receipt of the disclosure brochure and the solicitor’s disclosure document are required to be maintained by the investment adviser). However, even though the Advisers Act does not require evidence of receipt of the disclosure document, it is recommended that written proof of receipt be maintained. This written proof is the adviser's best defense against possible claims that adequate disclosure was not made to clients.

Certain states have specific disclosure requirements for advisers offering advisory services in those states. These disclosure requirements are summarized below and are applicable to state-registered advisers. It is recommended that the disclosures also be included in the Form ADV, Part II Schedule F, Item 1D of state and SEC-registered advisers offering advisory services in those states.

**Required disclosure for California.**

Subsection (j) of Rule 260.238, California Code of Regulations requires all investment advisers to disclose to their investment advisory clients that lower fees for comparable services may be available from other sources.

If financial planning services are offered by an adviser in California, the following disclosure must be added in Item 1.D of Form ADV Part II, Section F: Pursuant to California Rule 260.235.2, a conflict will exist between the interests of the applicant or associated person and the interest of the client.

**Required disclosure for District of Columbia.**

Sec. 1811.1(j) of DC Rules requires advisers to disclose that lower fees for comparable services may be available from other sources, and (k) requires advisers to indicate that all material conflicts of interest have been disclosed to the client in writing (via the adviser's disclosure provided in the Form ADV, Part II), which relate to the adviser or any of its representatives which could cause adviser to not render unbiased and objective advice.
Required disclosure for Massachusetts.

Massachusetts law (Sec. 203A) requires disclosure that information on disciplinary history and the registration of the adviser and its associated persons may be obtained by contacting the Public Reference Branch of the U.S. Securities and Exchange Commission at (202) 942-8090 or the Massachusetts Securities Division, One Ashburton Place, 17th Floor, Boston, Massachusetts 02108.

Required disclosure for Missouri.

It is suggested that the following disclosure be included, if an adviser uses solicitors; (that is, if Form ADV, Part II, Page 6, Item 13 B is checked YES):

“The applicant's referral agreement is in compliance with the federal regulations as set out in 17 CFR section 275.206(4)-3, and the solicitation/referral fee is paid pursuant to a written agreement retained by both the investment adviser and the solicitor and provided to the client prior to or at the time of entering into any investment advisory contract.”

An investment adviser may, in those situations where different services are offered, provide Disclosure Brochures pertinent to each relevant service. This is sometimes desirable for advisers with large and varied clients who may not be interested in the full range of services offered. However, all material information must be presented in each document.

In addition to compensation disclosures (for both direct and indirect compensation) and other disclosures included in Part II of Form ADV, SEC Release IA 1092 discusses other requirements, including the following:

a. Excessive advisory fees for services rendered must be disclosed. Disclosure takes the form of advising clients that comparable services are available elsewhere for less.
b. Any and all conflicts of interest must be fully and fairly disclosed and, even then, the disclosed activities may be prohibited because certain conflicts may be inconsistent with an adviser's duties as a fiduciary.
c. An investment adviser who is also a registered representative of a broker-dealer and provides investment advisory services outside the scope of their employment with the broker-dealer must disclose to their advisory clients that their advisory activities are independent from their employment with the broker-dealer. Additional disclosures would be required, depending on the circumstances, if the investment adviser recommends that their clients execute securities transactions through the broker-dealer with which the investment adviser is associated, or if advice is limited to the products of the broker-dealer. For example, the investment adviser would be required to disclose fully the nature and extent of any interest the investment adviser has in such recommendation, including any compensation the
An investment adviser generally must disclose if personal securities transactions for itself and its advisory persons may be similar or inconsistent with the investment advice given to clients.

e. An investment adviser must disclose compensation received from the issuer of a security being recommended.

f. Certain financial and disciplinary events must be disclosed as discussed in the following section.

**Disclosure of Financial and Disciplinary Information**

1. Form ADV Part 1 Disclosures
   Form ADV Part 1, includes expanded Item 11, Disclosure Information and questions about a Firm’s disciplinary history and adopts a Disclosure Reporting Page (DRP) form. For the Part 1A Item 11 questions, advisers must report relevant actions or information for the last ten years only, subject to the Advisers Act anti-fraud rules summarized in Section 2 below. Advisers may now also remove disclosures more than 10 years old or any “pending” matters which have been resolved in the adviser’s or affiliate’s favor (see DRP questions). SEC – registered advisers are not required to report arbitration claims under Item 11, Disciplinary Disclosure Information.

   State requirements for state advisers are more stringent and still require disclosure of items over ten years old and also the reporting of any criminal charges and any arbitration claims.

2. SEC Rule 206(4)-4 under the Advisers Act requires:
   a. an investment adviser who has custody or discretionary authority over client funds or securities, or who requires prepayment of fees of more than $500 per client and six or more months in advance, to disclose a "precarious financial condition" to those pertinent clients (over whose securities they have custody or discretionary authority, or from whom they accept prepaid fees)--not, necessarily, to all clients. The SEC advised that "precarious financial condition" means a financial condition of the adviser that is "reasonably likely to impair the adviser's ability to meet contractual commitments to clients." This would generally include insolvency or bankruptcy.

   b. an investment adviser to disclose material facts about any legal or disciplinary event "material to an evaluation of the adviser's integrity or ability to meet contractual commitments to clients"
involving the adviser or its management persons." Management person means a person with the power to exercise, directly or indirectly, a controlling influence over the management or policies of an adviser, or to determine the general investment advice given to clients.

The following four factors should be considered when determining if an event is "material:"

1. the distance of the entity or individual from the advisory function;
2. the nature of the infraction;
3. the severity of the sanction;
4. the time elapsed (10 years);*

*Whether or not an event which occurred beyond ten years would be material depends upon the facts and circumstances, and thus the adviser should weigh the four factors outlined above to determine if the event is "material." Further, the Release IA-1083 (10/2/87) states that events occurring within the ten-year period may not be, under certain circumstances, "material" to clients and would, therefore, not have to be disclosed.

A "material" disciplinary event includes any of the following events occurring within ten years:

1. A criminal or civil court action which involves:
   a. a conviction, guilty or nolo contendere ("no contest") plea to a felony, misdemeanor or a named subject of a criminal proceeding involving an investment related business, fraud, false statements, or omissions, wrongful taking of property or bribery, forgery, counterfeiting or extortion;
   b. a finding of a violation of an investment related statute or regulation; or
   c. an order, judgement or decree enjoining a person from engaging in any investment related activity.

2. Administrative proceeding before the SEC, or any federal or state regulatory agency in which a person was;
   a. found to have caused an investment-related business to lose its authorization to do business; or
   b. found to have been involved in a violation of an investment-related statute or regulation and was the subject of an order by the SEC, federal or state agency which denied, suspended, revoked, or limited the person’s authority to act in or associate with an investment related activity.

3. Self-regulatory organization proceeding in which a person was;
   a. found to have caused an investment-related business to lose its authorization to do business; or
b. found to have violated the SRO’s rules and was the subject of an order expelling, barring or suspending the person from membership or association with other members, fining the person more than $2,500.00; or limiting the person’s investment-related activities.

**Identification of Investment Advisory Activities**

Form ADV Part 1, Item G and Part II, Page 2, Items 1A(1)-(9) of Form ADV identifies the investment advisory services that an adviser provides. In SEC Release IA-1000, the Commission clarified the differences between Items 1A(1) and 1A(2); that is, the difference between Investment Supervisory Services and services that are not investment supervisory in nature. For the client based on the individual needs of the client. Individual needs include, for example, the nature of other client assets and the client's personal and family obligations." This definition has been expanded in the Form ADV Instructions to qualify advisers for SEC registration. The criteria now include continuous and regular management services with discretionary authority or if no discretionary authority, then continuous responsibility to make recommendations for the specific client’s needs, and if accepted by the client, the adviser must have responsibility for arranging or effecting purchases or sales. (See Form ADV Part 1A Instructions.) In Release IA-1000, the SEC provided an example of when managing investment advisory accounts not involving investment supervisory services would occur, as follows: "An example of an advisory service which would be covered by Item 1A(2) and not by Item 1A(1) would be an account management service provided only with respect to a particular class of securities owned by a client (e.g., options) where it is understood that the adviser will not consider the individual needs of a particular client as distinct from the needs of any other client."

Item 1A(1), Investment Supervisory Services and 1A(2), other management services, also require additional recordkeeping. (See also, the Books and Records section for further information regarding Recordkeeping.)
ANTI-MONEY LAUNDERING

Policy

It is the policy of the Firm to seek to prevent the misuse of the funds it manages, as well as preventing the use of its personnel and facilities for the purpose of money laundering and terrorist financing. The Firm has adopted and enforces policies, procedures and controls with the objective of detecting and deterring the occurrence of money laundering, terrorist financing and other illegal activity. Anti-money laundering (“AML”) compliance is the responsibility of every representative. Therefore, any representative detecting any suspicious activity is required to immediately report such activity to the AML Compliance Officer. The representative making such report should not discuss the suspicious activity or the report with the client in question.

TO: ALL MEMBERS

FROM: AL FIGLIOLIA

DATE: MAY 28, 2003

ANTI-MONEY LAUNDERING-RED FLAGS

The following are "red flags" that may signal possible money laundering or terrorist financing activities. The following list is not totally inclusive and other actions may be signs of possible illegal activity. When in doubt please contact the AML Compliance Officers, David Kelly or Al Figliolia.

A. The customer exhibits unusual concern about Cornerstone Professional Advisor Services, LLC or another firm's compliance with government reporting requirements and our AML policies. The customer's concerns about his or her identity, type of business and assets, or is reluctant or refuses to reveal any information that we require to open an account.

B. The customer wishes to engage in transactions that lack any business sense or investment strategy, or are inconsistent with the customer's business or investment strategy.

C. The information that the customer provides that identifies a legitimate source for funds is false, misleading, or substantially incorrect

D. Upon our request, the customer refuses to identify the source of the funds used to open the account or any other assets.
E. The customer, or a person associated with the customer, has a questionable background or is the subject of news reports indicating possible criminal, civil, or regulatory violations.

F. The customer exhibits a lack of concern regarding the risks, commissions or other costs or risks of the transaction.

G. The customer appears to be acting as an agent for an undisclosed principal, but declines or is reluctant to provide information or is otherwise evasive about the entity or person he/she is representing.

H. The customer has difficulty describing the nature of his/her business or lacks basic knowledge about his/her industry.

I. The customer attempts to make frequent or large deposits of currency. We do not allow investments that make use of cash or currency. Anyone inquiring in detail about this method of investing should be reported to Al Figliolia, Compliance Officer and David Kelly the AML Compliance Officer.

J. The customer engages in transactions involving cash or currency that appear to be structured to avoid the $10,000 government reporting requirements, especially if it appears that the transactions are just below the reporting thresholds.

K. For no apparent reason, the customer has multiple accounts under a single name or multiple names, with a large number of inter-account or third party transfers.

L. The customer is from or has accounts in a country identified as a non-cooperative country by the FATF.

M. The customer has unexplained or sudden extensive wire transfers, especially in accounts that had little or no previous activity of this type.

N. The customer's account shows many currency and cashiers check transaction aggregating to large sums.

O. The customer's account has a large number of wire transfers to unrelated third parties inconsistent with the customer's legitimate business purpose.

P. The customer's account has wire transfers that have no apparent business purpose to or from a country identified as a money laundering risk or bank secrecy haven.

Q. The customer's account shows large or frequent wire transfers, immediately withdrawn by check or debit card without any apparent business purpose.
R. The customer makes a deposit into his account and immediately requests that money be wired or transferred to a third party, or to another firm, without any apparent business purpose.

S. The customer makes a deposit into the account for the purpose of purchasing a long term investment followed shortly by a request to liquidate the position and transfer the proceeds out of the account, either to the customer, or another account not in the customer's name.

T. The customer makes excessive journal entries between unrelated accounts with no apparent business purpose.

U. The customer requests that a transaction be done while avoiding Cornerstone Professional Advisor Services, LLC normal documentation requirements.

V. The customer's account has inflows of funds well beyond the known income or net worth of the customer.

When a registered representative or employee of Cornerstone Professional Advisor Services, LLC detects any "Red Flag" or any other potentially illicit activity, they should investigate further under the direction of the AML Compliance Officer. This may include obtaining additional information internally, or from third party sources, contacting the government, freezing an account, and/or filing a SAR.

**Background**

On October 26, 2001, the President signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“USA PATRIOT Act”). Prior to the passage of the USA PATRIOT Act, regulations applying the anti-money laundering provisions of the Bank Secrecy Act (“BSA”) were issued only for banks and certain other institutions that offer bank-like services or that regularly deal in cash. The USA PATRIOT Act required the extension of the anti-money laundering requirements to financial institutions, such as registered and unregistered investment companies, that had not previously been subjected to BSA regulations.

In April 2003, the Department of the Treasury proposed new rules that would require SEC registered advisers, and certain unregistered advisers, to adopt an anti-money laundering program.

**Responsibility**
The Firm has designated the Compliance Officer or his designee as the Firm's AML Compliance Officer.

In this capacity, the AML Compliance Officer is responsible for coordinating and monitoring the Firm’s AML program as well as maintaining the Firm’s compliance with applicable AML rules and regulations. The AML Compliance Officer will review any reports of suspicious activity which have been observed and reported by representatives.

**Procedure**

The Firm has adopted procedures to implement the Firm’s policy and reviews to monitor and insure the Firm’s policy is observed, implemented properly and amended or updated, as appropriate, which include the following:

**Client Identification Procedures**

As part of the Firm's AML program, the Firm has established procedures to ensure that all clients’ identities have been verified before an account is opened.

Before opening an account for an individual client, the Firm will require satisfactory documentary evidence of a client’s name, address, date of birth, social security number, driver license or, if applicable, tax identification number. Before opening an account for a corporation or other legal entity, the Firm will require satisfactory evidence of the entity’s name, address and that the acting principal has been duly authorized to open the account. The AML Compliance Officer will retain records of all documentation that has been relied upon for client identification for a period of five years.

**Prohibited Clients**

The Firm will not open accounts or accept funds or securities from, or on behalf of, any person or entity whose name appears on the List of Specially Designated Nationals and Blocked Persons maintained by the U.S. Office of Foreign Assets Control, from any Foreign Shell Bank or from any other prohibited persons or entities as may be mandated by applicable law or regulation.

The Firm will also not accept high-risk clients (with respect to money laundering or terrorist financing) without conducting enhanced, well-documented due diligence regarding such prospective client.

**Annual Training and Review**
The AML Compliance Officer will conduct annual representative training programs for appropriate personnel regarding the AML program. Such training programs will review applicable laws, regulations and recent trends in money laundering and their relation to the Firm's business. Attendance at these programs is mandatory for appropriate personnel, and session and attendance records will be retained for a five-year period.

The AML program will be audited annually by a qualified individual or independent auditors (other than the AML Compliance Officer). The audit will evaluate the Firm's AML program for compliance with current AML laws and regulations.

Regulatory Reference: Anti-Money Laundering

Anti-Money Laundering

While many advisers do not have custody or handle client securities or assets, each adviser needs to have written policy and procedures to prevent and detect possible money laundering schemes.

Typically, money laundering involves transactions used to transform proceeds from illegal activities into funds with an apparently legal source that can be easily exchanged without being traced back to its origin. These activities typically involve proceeds derived from drug trafficking and tax evasion. However, terrorist financing has been added as a predicate offense under the anti-money laundering laws. This activity differs from typical money laundering activity in that funds may have a legitimate source.

The three primary stages of money laundering are: "Placement" of currency into a financial services institution; "layering" by movement of funds from institution to institution to conceal the source of the ownership of such funds, and "integration" of funds by reinvestment in ostensibly legitimate businesses or financial transactions.

There are various laws and regulatory standards that govern entities to deter money laundering including The Bank Secrecy Act of 1970, Money Laundering Control Act of 1986, and most recently, the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 (Title III of the USA PATRIOT Act of 2001) that imposes reporting, recordkeeping and policy requirements particularly on broker-dealers, investment companies, and banks but also on other financial institutions.

The Department of Treasury Financial Crimes Enforcement Network (FINCEN) proposed new rules (4/29/2003) under the USA PATRIOT Act that would require certain investment advisers to adopt an anti-money laundering program. The proposed rule would cover SEC-registered advisers that have a principal place of business in the United States and that report assets under management (discretionary
Private advisers having a principal place of business in the United States and which are exempt from SEC registration under Section 203(b)(3) of the Advisers Act because they have fewer than 15 clients and do not hold themselves out to the public as investment advisers would also be covered if they have more than $30 million of assets under management. The proposed rules would also cover commodity trading advisers.

Advisers, like all other financial institutions, should establish or have in place the following under the proposed new rules:

1. a written statement of an anti-money laundering policy with procedures and controls, as may be appropriate and relevant for the Firm;
2. designate a compliance officer or other officer to be responsible for the Firm’s anti-money laundering policy;
3. conduct an representative training program; and
4. periodically review and test the Firm’s policy and procedures, or consider an independent audit, if appropriate.

Advisory Firms that do manage investment mutual funds, which are specifically covered by the USA PATRIOT Act, must make sure that registered investment companies create compliance programs and verify shareholders identities, among other obligations under the new requirements.

The U.S. Treasury Department has also proposed a rule that would require unregistered investment companies, i.e., hedge funds, section 3(c)(1) and 3(c)(7) companies, commodity pools and companies that primarily invest in real estate and/or interests in real estate to establish and maintain anti-money laundering programs under the USA PATRIOT Act.

The SEC has indicated through its examination program its interest in determining what procedures and controls advisers are using to identify suspicious activities and prevent possible violations. The SEC would be the designated regulator for SEC registered advisers under the proposed FinCen rules.

As part of an adequate anti-money laundering program, advisers need to also exercise due diligence in obtaining, documenting and, in some cases, verifying client background information.

Certain activities should prompt further inquiry which may include the following:

- reluctance to provide information;
- avoiding record requirements;
- activity inconsistent with a client’s business;
- frequent transfers, deposits or withdrawals of funds requested to offshore or foreign entities or unrelated third parties;
any of these red flags or other suspicious activity should prompt further inquiry with possible referral to appropriate authorities. Treasury is considering whether advisers should be subject to additional Bank Secrecy Act requirements, including suspicious activity reporting. For now, Treasury and the SEC are encouraging advisers to implement procedures for voluntarily filing suspicious activity reports and for reporting terrorist activities to Treasury using the Financial Institutions Hotline (866.556.3974).

The Treasury Office of Foreign Assets Control (OFAC) oversees the enforcement of federally mandated economic sanctions against foreign governments and maintains a list of individuals or entities known or suspected to engage in illegal activities, referred to as Specially Designated Nationals and Blocked Persons (SDNs). All U.S. persons are forbidden from entering into transactions prohibited by reference to the SDN list. Advisers should screen all account owners, beneficiaries and payees prior to inception of the relationship or transaction. Account holders and beneficiaries should then be screened periodically. Advisers should freeze all funds and transactions in an interest bearing escrow account of persons on the SDN List and report blockings to OFAC within ten days through a designated Treasury contact person. Failure to do so may have severe economic, legal and reputational consequences. A complete list of sanctions programs and SDNs may be accessed at www.treas.gov/ofac.

Additional information may be obtained from the US Treasury Department, Financial Crimes Enforcement Network (www.treas.gov/fincen) or the Financial Action Task Force on Money Laundering (www.oecd.org/fatf).
E-MAIL AND ELECTRONIC COMMUNICATIONS

Policy

The Firm's policy provides that e-mail, instant messaging, and other electronic communications are treated as written communications and that such communications must always be of a professional nature. Our policy covers electronic communications for the Firm, to or from our clients, and includes any personal e-mail communications within the Firm. Personal use of the Firm’s e-mail and any other electronic systems is strongly discouraged. Also, all Firm and client-related electronic communications must be on the Firm’s systems, and use of personal e-mail addresses or other personal electronic communications for Firm or client communications is prohibited.

Background

As a result of recent financial industry issues and several regulatory actions against major firms involving very significant fines, financial industry regulators, e.g., SEC and NASD are focusing attention on advisers and broker-dealer policies and practices on the use of e-mail, other electronic communications and retention practices.

The Books and Records rule (Rule 204-2(a)(7)) provides that specific written communications must be kept including those relating to a) investment recommendations or advice given or proposed; b) receipt or delivery of funds or securities; and c) placing and execution of orders for the purchase or sale of securities.

All electronic communications are viewed as written communications, and the SEC has publicly indicated its expectation that Firms retain all electronic communications for the required record retention periods. If a method of communication lacks a retention method, then it must be prohibited from use by the firm. Further, SEC regulators also will request and expect all electronic communications of supervised persons to be monitored and maintained for the same required periods. E-mails consisting of spam or viruses are not required to be maintained.

For state registered advisers, the state’s books and records requirements generally follow the SEC rule requirements therefore, state registered advisers are well advised to follow the SEC’s interpretations and guidance regarding an e-mail policy and related practices.
Responsibility

Each representative has an initial responsibility to be familiar with and follow the Firm’s e-mail policy with respect to their individual e-mail communications. The Compliance Officer or designee has the overall responsibility for making sure all representatives are familiar with the Firm’s e-mail policy, implementing and monitoring our e-mail policy, practices and recordkeeping.

Procedure

The Firm has adopted procedures to implement the Firm’s policy and reviews to monitor and insure that the Firm’s policy is observed, implemented properly and amended or updated, as appropriate, which include the following:

- Our Firm’s e-mail policy has been communicated to all persons within the Firm and any changes in our policy will be promptly communicated.
- E-mails and any other electronic communications relating to the Firm’s advisory services and client relationships will be maintained and monitored by The Compliance Officer or designee on an on-going or periodic basis through appropriate software programming or sampling of e-mail, as the Firm deems most appropriate based on the size and nature of our Firm and our business.
- Electronic communications records will be maintained and arranged for easy access and retrieval so as to provide true and complete copies with appropriate backup and separate storage for the required periods.

Electronic communications will be maintained in electronic media, with printed copies if appropriate, for a period of two years on-site at our main office and at an off-site location for an additional three years.
ADVERTISING

Policy

The Firm may use various advertising and marketing materials to obtain new advisory clients and to maintain existing client relationships. The Firm's policy requires that any advertising and marketing materials must be truthful and accurate, consistent with applicable rules, and reviewed and approved by the Compliance Officer or designated officer. The Firm's policy prohibits any advertising or marketing materials that may be misleading, fraudulent, deceptive and/or manipulative.

Background

An advertisement is generally defined as any written communication, which includes websites and e-mails, directed to more than one person concerning advice or recommendations about the purchase or sale of securities or any other advisory service.

The SEC anti-fraud rules under the Advisers Act prohibit advisers from engaging in advertising practices which are fraudulent, deceptive, or manipulative activities. The manner in which investment advisers portray themselves, services and their investment returns to existing and prospective clients is highly regulated. SEC no-action letters also provide guidelines and prohibitions relating to an adviser's advertising and marketing practices.

Responsibility

The Compliance Officer or designee has the responsibility for implementing and monitoring our policy, and for reviewing and approving any advertising and marketing to insure any materials are consistent with our policy and regulatory requirements. This designated person is also responsible for maintaining, as part of the Firm's books and records, copies of all advertising and marketing materials with a record of reviews and approvals in accordance with applicable recordkeeping requirements.

Procedure

The Firm has adopted procedures to implement the Firm’s policy and reviews to monitor and insure the Firm’s policy is observed, implemented properly and amended or updated, as appropriate, which include the following:
• All advertisements and promotional materials must be reviewed and approved prior to use by the Compliance Officer, or designated officer or another officer of the Firm (other than the individual who prepared such material).

• The initialing and dating of the advertising and marketing materials will document approval.

• Each representative is responsible for ensuring that approved materials are not used or modified without the express written authorization of the designated officer.

• The Compliance Officer or designated officer must also review other written communications prepared for existing clients or prospective clients including any quarterly letters.

The Compliance Officer or designated officer is responsible for maintaining copies of any advertising and marketing materials, including any reviews and approvals, for a total period of five years following the last time any material is disseminated.
TRADING

**Policy**

As an adviser and a fiduciary to our clients, our clients’ interests must always be placed first and foremost, and our trading practices and procedures prohibit unfair trading practices and seek to disclose and avoid any actual or potential conflicts of interests or resolve such conflicts in the client’s favor.

Our Firm has adopted the following policies and practices to meet the Firm’s fiduciary responsibilities and to insure our trading practices are fair to all clients and that no client or account is advantaged or disadvantaged over any other.

Also, the Firm's trading practices are generally disclosed in our Disclosure Document provided to prospective clients and annually offered to clients.

**Background**

As a fiduciary, many conflicts of interest may arise in the trading activities on behalf of our clients, our Firm and our representatives, and must be disclosed and resolved in the interests of the clients. In addition, securities laws, insider trading prohibitions and the Advisers Act, and rules thereunder, prohibit certain types of trading activities.

**Aggregation**

The aggregation or blocking of client transactions allows an adviser to execute transactions in a more timely, equitable, and efficient manner and seeks to reduce overall commission charges to clients.

Our Firm’s policy is to aggregate client transactions where possible and when advantageous to clients. In these instances, clients participating in any aggregated transactions will receive an average share price and transaction costs will be shared equally and on a pro-rata basis.

In the event transactions for an adviser, its representatives or principals (“proprietary accounts”) are aggregated with client transactions, conflicts arise and special policies and procedures must be adopted to disclose and address these conflicts.
**Allocation**

As a matter of policy, an adviser's allocation procedures must be fair and equitable to all clients with no particular group or client(s) being favored or disfavored over any other clients.

The Firm's policy prohibits any allocation of trades in a manner that the Firm's proprietary accounts, affiliated accounts, or any particular client(s) or group of clients receive more favorable treatment than other client accounts.

The Firm has adopted a clear written policy for the fair and equitable allocation of transactions, (e.g., pro-rata allocation, rotational allocation, or other means) which is disclosed in the Firm's Disclosure Document.

**Trade Errors**

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

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

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

**Responsibility**

The Compliance Officer or designee has the responsibility for the implementation and monitoring of our trading policies and practices, disclosures and recordkeeping for the Firm.

**Procedure**
The Firm has adopted various procedures to implement the Firm’s policy and reviews to monitor and insure the Firm’s trading policies are observed, implemented properly and amended or updated, which include the following:

- Periodic supervisory reviews of the Firm’s trading practices.
- Periodic reviews of the Firm’s Disclosure Document, advisory agreements, and other materials for appropriate disclosures of the Firm’s trading practices and any conflicts of interests.
- Designation of a Brokerage Committee, or other designated person, to review and monitor the Firm’s trading practices.

**Regulatory Reference:** Trading

Trading practices must be fair to clients, with a fair and reasonable allocation system. Trading encompasses various fiduciary obligations, including best execution, soft dollars and other issues (see these sections for additional information). Investment advisers are required to have order memoranda (trading tickets) that meet minimum SEC requirements (see *Books & Records* Section). In addition, SEC examiners routinely ask for files and documentation relating to trading errors. Advisers are asked for any written procedures regarding trading aggregation and/or allocation; the examiner may then attempt to determine if these procedures are being followed. Examiners will review closely issues of excessive commissions, churning, "as of" trades and other unusual or abusive items regarding price, commissions, mark-ups/downs, executing broker or dealer used, market in which executed, or questionable or improper allocations.

The Advisers Act has restrictions on principal trading and agency cross transactions (See Principal Trading and Agency Cross Transactions Section). Based on an adviser’s clients, other regulations may apply, such as ERISA and the Investment Firm Act of 1940. NASD, NYSE or other exchange regulations may apply if an adviser is also a broker-dealer or has an affiliated broker-dealer. The adviser should review trading practices on an on-going basis to ensure traders are adhering to Firm policies and procedures.

**Trading Errors**

As fiduciaries, investment advisers are required to put their clients' interests ahead of their own. This duty is especially evident when it comes to correcting errors made in placing trades for client accounts. As part of a standard examination of an investment adviser, a SEC or state examiner will typically review trading errors to determine if the client was in any way disadvantaged in the error-correction process.

Advisers should be aware of the following restrictions on trading errors:
1. When an adviser corrects an error, the client must not be disadvantaged: the client must be "made whole."
2. Soft dollars may not be used to pay for correcting an adviser's trading errors. In a SEC letter to Charles Lerner, Director of Enforcement, Department of Labor, dated October 25, 1988, the SEC stated:

   “The Division believes that an investment manager has an obligation to place orders correctly for its advised and non-advised accounts. Accordingly, if an investment manager makes an error while placing a trade for an account, then the investment manager, in order to comply with its obligation to the customer, must bear any costs of correcting such trade. Because an investment manager itself is responsible for any losses resulting from an inaccurate or erroneous order placed for an advised account, a broker provides no value to that advised account by offsetting the trade and carrying the loss. Instead, this conduct solely benefits the investment manager.”
3. The adviser should review the error-correction procedure to determine if, in correcting the error, an agency-cross transaction would take place. Should the adviser believe that such a transaction is warranted, the adviser should be sure that all proper disclosures are made and consents obtained, as required in Section 206(3)-2 of the Advisers Act.
4. Advisers must review their own supervisory procedures to make sure that procedures for correcting trading errors are in place. In addition, reviews of trading practices should periodically be made to determine that the Firm's procedures are being followed. To this end, advisers should maintain a file documenting the correction of trading errors. The creation of such a file allows the adviser to periodically review all trading errors for a particular time period to make sure that they were handled quickly and correctly.

Suitability of a trade error also factors into the resolution of the error. Unsuitable trades must always be resolved in the client’s favor with the client, being made whole, with errors being resolved on case-by-case basis.

Errors may also include compensating a client for any loss on an error and as well as lost investment opportunity in some circumstances.

**Trade Allocation Procedures**

As part of an adviser's fiduciary way, an adviser may not allocate trades in such a way that the adviser's own (or affiliated) account(s) or certain clients receive more favorable treatment than the adviser's clients' accounts.

The SEC found that an investment adviser failed to adequately supervise its portfolio
manager whose trade allocation practices were favoring the adviser's private representative profit-sharing plans over mutual funds under the adviser's management. The SEC found this to cause a conflict of interest between the portfolio manager's responsibility to the mutual funds and to the profit-sharing plan.

Similarly, an adviser may not favor certain performance-based or other client accounts with “hot issues” or allocate profitable trades at each day’s end so as to disproportionately favor certain clients without appropriate disclosure. (McKenzie Walker Investment Management, IA Rel. 1571, July 16, 1996).

An adviser’s or its personnel’s proprietary accounts cannot be traded in a favorable manner over client accounts.

Allocation procedures should be fair and equitable to all client types with no group being favored or disfavored over any other group. Because of the potential for conflicts of interest and past abuses, advisory Firms should establish a clear written policy for the fair and equitable allocation for trades which should also be disclosed in Form ADV Part II, Item 12.B.

**Aggregation of Orders**

Conflicts and restrictions exist for aggregating orders of various client types, such as individuals, ERISA plans, investment companies, with the orders on behalf of accounts advised by the investment adviser in which the adviser, its representatives and principals have economic interests (“proprietary accounts”). In the SMC Capital, Inc. no-action letter (available Sept. 5, 1995), the SEC indicated that aggregation of client orders with proprietary accounts would not violate the anti-fraud provisions of Section 206 of the Advisers Act if the practice of allocating orders is fully disclosed in the adviser’s Form ADV and separately disclosed to existing clients and no advisory account is favored over any other account. All clients participating in the aggregated order shall receive an average share price with all other transaction costs shared on a pro-rata basis.

The SEC granted no-action relief based on several conditions as outlined below:

1. the adviser’s policies for the aggregation of transactions shall be fully disclosed in the adviser’s Form ADV and separately to the adviser’s existing clients and the broker-dealer through which such orders are placed;
2. adviser will not aggregate transactions unless aggregation is consistent with its duty to seek best execution and the terms of adviser’s investment advisory agreement with each client for which trades are being aggregated;
3. no advisory client will be favored over any other client; each client that participates in an aggregated order will participate at the average share
price for all adviser’s transactions in that security on a given business day, with transaction costs shared pro-rata based on each client’s participation in the transaction;
4. adviser will prepare, before entering an aggregated order, a written statement (“Allocation Statement”) specifying the participating client accounts and how it intends to allocate the order among those clients;
5. if the aggregated order is filled in its entirety, it will be allocated among clients in accordance with the Allocation Statement; if the order is partially filled, it will be allocated pro-rata based on the Allocation Statement;
6. notwithstanding the foregoing, the order may be allocated on a basis different from that specified in the Allocation Statement if all client accounts receive fair and equitable treatment and the reason for different allocation is explained in writing and is approved in writing by adviser’s compliance officer no later than one hour after the opening of the markets on the trading day following the day the order was executed;
7. adviser’s books and records will separately reflect, for each client account, the orders of which are aggregated, the securities held by, and bought and sold for that account;
8. funds and securities of clients whose orders are aggregated will be deposited with one or more banks or broker-dealers, and neither the client’s cash nor their securities will be held collectively any longer than is necessary to settle the purchase or sale in question on a delivery versus payment basis; cash or securities held collectively for clients will be delivered out to the custodian bank or broker-dealer as soon as practicable following the settlement;
9. adviser will receive no additional compensation of any kind as a result of the proposed aggregation; and
10. individual investment advice and treatment will be accorded to each advisory client.

The adviser will have procedures and mechanisms in place that are reasonably designed to implement the aggregation policies. Periodic reviews should be conducted to insure no accounts are being systematically disadvantaged.

While the SMC letter allows for the aggregation of transactions for proprietary accounts with those of customers (subject to certain conditions and procedures), each investment adviser needs to review its business practices, current policies and determine if this “combined” aggregation will be adopted or if it is even appropriate. Advisers may choose to not aggregate proprietary accounts with those of clients, in which case, disclosure of that fact should be made in the adviser’s Form ADV Part II along with the potential consequences of not aggregating proprietary and client accounts in an order.
BEST EXECUTION

Policy

As an investment advisory firm, the Firm has a fiduciary and fundamental duty to seek best execution for client transactions.

The Firm, as a matter of policy and practice, seeks to obtain best execution for client transactions, i.e., seeking to obtain not necessarily the lowest commission but the best overall qualitative execution under the particular circumstances.

Background

Best execution has been defined by the SEC as the “execution of securities transactions for clients in such a manner that the clients’ total cost or proceeds in each transaction is the most favorable under the circumstances.” The best execution responsibility applies to the circumstances of each particular transaction and an adviser must consider the full range and quality of a broker-dealer’s services, including execution capability, commission rates, the value of any research, financial responsibility and responsiveness, among other things.

Responsibility

The Compliance Officer or designee has the responsibility for the implementation and monitoring of our best execution policy, practices, disclosures and recordkeeping.

Procedure

The Firm has adopted procedures to implement the Firm’s policy and reviews to monitor and insure the Firm’s policy is observed, implemented properly and amended or updated, as appropriate, which include the following:

- As part of the Firm's brokerage and best execution practices, the Firm has adopted and implemented written best execution practices.
• The Compliance Officer or designated officer has responsibility for monitoring our Firm’s trading practices, gathering relevant information, periodically reviewing and evaluating the services provided by broker-dealers, the quality of executions, research, commission rates, and overall brokerage relationships, among other things.

• The Firm also conducts periodic reviews of the Firm’s brokerage and best execution practices, evaluates services and documents these reviews, and discloses a summary of brokerage and best execution practices in our Form ADV Part II.

• A Best Execution file is maintained for the information obtained and used in the Firm's periodic best execution reviews and analysis and to document the Firm’s best execution practices.

**Regulatory Reference:** Best Execution

In the SEC release on soft dollars (Release 34-23170 dated April 23, 1986), the SEC stated:

"As a fiduciary, a money manager has an obligation to obtain 'best execution' of clients’ transactions under the circumstances of the particular transaction. The money manager must execute securities transactions for clients in such a manner that the clients’ total cost or proceeds in each transaction is the most favorable under the circumstances.

A money manager should consider the full range and quality of a broker's services in placing brokerage including, among other things, the value of research provided as well as execution capability, commission rate, financial responsibility, and responsiveness to the money manager. The Commission wishes to remind money managers that the determinative factor is not the lowest possible commission cost but whether the transaction represents the best qualitative execution for the managed account. In this connection, money managers should periodically and systematically evaluate the execution performance of broker-dealers executing their transactions."

Investment advisers who manage or supervise client portfolios on a discretionary basis have a fiduciary obligation of best execution. In essence, an adviser is required to "execute securities transactions for clients in such a manner that the client's total cost or proceeds in each transaction is the most favorable under the circumstances." When evaluating brokers, the adviser is obliged to weigh such factors as the value of research provided, the commission rates charged, the ability to negotiate commissions, the ability to obtain volume discounts, execution capability, financial responsibility and responsiveness to the investment adviser. Furthermore, an adviser should periodically and systematically evaluate the performance of broker-dealers executing its clients' transactions.
Typically, to achieve best execution, an adviser may "bunch" or block client orders. [Note: Advisers may only include personal or proprietary trades with those of advisory clients if certain disclosures are made and procedures are followed according to the SMC No-action letter summarized in the Trading Section]. If bunch trading is not available, the adviser is required to disclose to clients that it will not bunch transactions and the fact that clients may pay higher commissions as a result.

As part of its obligation of best execution, an adviser must avoid "interpositioning," or placing a client transaction through a broker-dealer (for a commission) which then, in turn, places the order with a market maker (for which a mark-up/down is charged), when the order could be placed directly with the market maker for no disclosed brokerage commission and with no loss of service.

Currently, best execution practices are a priority SEC examination topic and advisory firms should establish written best execution practices, maintain records, evaluate and conduct periodic reviews of the Firm’s practices.

Based on information and speeches by SEC officials, examiners will be reviewing a firm’s best execution practices and may expect advisers to have the following:

1. an organized process to establish best execution procedures, such as, written policies and procedures, at a minimum, a brokerage committee, criteria for selection and/or an approved list for broker/dealers;
2. participants in the execution practices process should include individuals using a broker/dealer’s services such as traders, portfolio managers, analysts, operations, etc.;
3. gathering relevant information from and about broker/dealers which may include commission rates and spreads, quality of execution, research, clearance/settlement capabilities, trade error rate, and confidentiality, among other factors;
4. evaluate the information obtained and set criteria for selecting broker/dealers and consider electronic communications networks /ECNs as an alternative trading source;
5. document a firm’s best execution practices through written evaluations, information or research obtained, periodic review of a firm’s practices and the firms being utilized;
6. disclosing a firm’s best execution practices in Form ADV Part II, advisory agreements, as well as any conflicts of interest and making sure a firm’s practices are consistent with its disclosures; and
7. conduct and document systematic and periodic reviews of the firm’s best execution practices, at least annually.

The firm must review its best execution responsibilities when directing brokerage to any broker-dealer (especially affiliated entities), determining commission discounts and disclosing the various conflicts of interest inherent in this direction.
PERFORMANCE

Policy

The Firm, as a matter of policy and practice, does prepare and distribute various performance information relating to the investment performance of the Firm and advisory clients. Performance information is treated as advertising/marketing materials and designed to obtain new advisory clients and to maintain existing client relationships. The Firm's policy requires that any performance information and materials must be truthful and accurate, and prepared and presented in a manner consistent with applicable rules and regulatory guidelines and reviewed and approved by a designated officer. The Firm's policy prohibits any performance information or materials that may be misleading, fraudulent, deceptive and/or manipulative.

Background

An investment adviser's performance information is included as part of a Firm's advertising practices which are regulated by the SEC under Section 206 of the Advisers Act, which prohibits adviser from engaging in fraudulent, deceptive, or manipulative activities. The manner in which investment advisers portray themselves and their investment returns to existing and prospective clients is highly regulated. These standards include how performance is presented. SEC Rule 206(4)-1 proscribes various advertising practices of investment advisers as fraudulent, deceptive or manipulative and various SEC no-action letters provide guidelines for performance information.

Responsibility

The Compliance Officer or designee has the responsibility for implementing and monitoring our policy for the preparation, presentation, review and approval of any performance information to insure any materials are consistent with our policy and regulatory requirements. This designated person is also responsible for maintaining, as part of the Firm's books and records, copies of all performance materials, including the supporting records to demonstrate the calculation of any performance information for the entire performance information period consistent with applicable recordkeeping requirements, as well as records of reviews and approvals.
Procedure

The Firm has adopted procedures to implement the Firm’s policy and reviews to monitor and insure the Firm’s policy is observed, implemented properly and amended or updated, as appropriate, which include the following:

- All performance information and materials must be reviewed and approved prior to use by the Compliance Officer or a designated officer, or another officer of the Firm (other than the individual who prepared such material), who is familiar with applicable rules and standards for performance advertising.

- The initialing and dating of the performance materials will document approval.

- Each representative is responsible for ensuring that approved materials are not used or modified without the express written authorization of the Compliance Officer or designated officer.

The Compliance Officer or designated officer is responsible for maintaining copies of any performance materials and supporting documentation for the calculation of performance materials.
INVESTMENT PROCESSES

Policy

As a registered adviser, and as a fiduciary to our advisory clients, the Firm is required, and as a matter of policy, obtains background information as to each client’s financial circumstances, investment objectives, investment restrictions and risk tolerance, among many other things, and provides its advisory services consistent with the client’s objectives, etc. based on the information provided by each client.

Background

The U.S. Supreme Court has held that Section 206 (Prohibited Activities) of the Investment Adviser Act imposes a fiduciary duty on investment advisers by operation of law (SEC v. Capital Gains Research Bureau, Inc., 1963).

Also, the SEC has indicated that an adviser has a duty, among other things, to ensure that its investment advice is suitable to the client's objectives, needs and circumstances, (SEC No-Action Letter, In re John G. Kinnard and Co., publicly available 11/30/1973).

Every fiduciary has the duty and a responsibility to act in the utmost good faith and in the best interests of the client and to always place the client's interests first and foremost.

As part of this duty, a fiduciary and an adviser with such duties, must eliminate conflicts of interest, whether actual or potential, or make full and fair disclosure of all material facts of any conflicts so a client, or prospective client, may make an informed decision in each particular circumstance.

Responsibility

The Firm's investment professionals responsible for the particular client relationship have the primary responsibility for determining and knowing each client's circumstances and managing the client's portfolio consistent with the client's objectives. The Firm's Compliance Officer or designated officer has the overall responsibility for the implementation and monitoring of our investment processes policy, practices, disclosures and recordkeeping for the Firm.
**Procedure**

The Firm has adopted procedures to implement the Firm's policy and reviews to monitor and insure the Firm's policy is observed, implemented properly and amended or updated, as appropriate, which include the following:

- The Firm obtains substantial background information about each client's financial circumstances, investment objectives, and risk tolerance, among other things, through an in-depth interview and information gathering process which includes client profile or relationship forms.
- Advisory clients may also have and provide written investment policy statements or written investment guidelines that the Firm reviews, approves, and monitors as part of the Firm's investment services, subject to any written revisions or updates received from a client.
- The Firm provides the Firm's Form ADV Part II to all prospective clients which discloses the Firm's advisory services, fees, conflicts of interest and portfolio/supervisory reviews and investment reports provided by the Firm to clients.
- The Firm may provide periodic reports to advisory clients which may include important information about a client's financial situation, portfolio holdings, values and transactions, among other things. The Firm may also provide performance information to advisory clients about the client's performance, which may also include a reference to a relevant market index or benchmark.
- The Firm’s representatives may also schedule client meetings on a periodic basis, or request basis, to review a client's portfolio, performance, market conditions, financial circumstances, and investment objectives, among other things, to confirm the Firm's investment decisions and services are consistent with the client's objectives and goals. Documentation of such reviews should be made in the client file.
- Client relationships and/or portfolios may be reviewed on a more formal basis on a quarterly or other periodic basis by designated supervisors or management personnel.

**Regulatory Reference: Investment Processes**

Investment advisers should require that each new client, in addition to receiving its disclosure information, supply important information needed to establish an investment advisory relationship. The policies and procedures of the adviser should be strictly followed. Advisory personnel should be familiar with the client documents required by the Firm and be careful that all necessary information is obtained and where applicable, verified with supporting documents, such as trust agreements, discretionary agreements, and power of attorney forms. Of primary importance is information regarding financial
needs and investment objectives. Unless adequate information is obtained regarding these areas, an adviser will be unable to ascertain the investment suitability for the client. It is recommended that a written statement of investment policy or guidelines be prepared or received for each advisory client relationship and any client restrictions noted in writing. (Restrictions include which securities or types of securities to (or not to) buy and sell, percentage allocations, etc.)

Obtaining accurate, complete and relevant client background information also assists the firm in meeting its client, fiduciary and regulatory responsibilities in appropriately managing a clients’ assets as well as its responsibility to detect and prevent possible improper money laundering activities. (See the Anti-Money Laundering section)

Both the adviser and the client have a responsibility to be aware of any changes in a client's financial circumstances, investment objectives or restrictions. Good business practices should provide for an obligation by clients to inform the adviser of any such changes and for the adviser to periodically review, update and document client information.

Further, in the SEC release on the new Compliance Programs of Investment Companies and Investment Advisers (SEC Release Nos. IA-2204 & IC-26299, dated 12/17/2003) adopting new rules 206(4)-7 for advisers and rule 38a-1 for investment companies, the SEC noted the importance of portfolio management processes. In fact, the SEC indicated that policies and procedures of an adviser should address the Firm's portfolio management processes as one of the topics that must be included, at a minimum, because of the adviser's fiduciary and regulatory obligations under the Advisers Act.
**Valuations of Securities**

**Policy**

As a registered adviser and as a fiduciary to our advisory clients, the Firm has adopted this policy which requires that all client portfolios and investments reflect current, fair and accurate market valuations. Any pricing errors, adjustments or corrections are to be verified, preferably through independent sources or services, and reviewed and approved by the Firm’s designated person(s) or pricing committee.

**Background**

As a fiduciary, our Firm must always place our client's interests first and foremost and this includes pricing processes, which insure fair, accurate and current valuations of client securities of whatever nature. Proper valuations are necessary for accurate performance calculations and fee billing purposes, among others. Because of the many possible investments, various pricing services and sources and diverse characteristics of many investment vehicles, independent sources, periodic reviews and testing, exception reporting, and approvals and documentation or pricing changes are necessary with appropriate summary disclosures as to the Firm's pricing policy and practices. Independent custodians of client accounts may serve as the primary pricing source.

**Responsibility**

The Compliance Officer or designee, or the Firm's pricing committee, if any, has overall responsibility for the Firm's pricing policy, determining pricing sources, pricing practices, including any reviews and re-pricing practices to help insure fair, accurate and current valuations.

**Procedure**

The Firm has adopted procedures to implement the Firm's policy and reviews to monitor and insure the Firm's policy is observed, implemented properly and amended or updated, as appropriate, which include the following:

- The Firm utilizes, to the fullest extent possible, recognized and independent pricing services for timely valuation information for advisory client securities.
• Whenever valuation information for specific, illiquid, foreign, private or 
other investments is not available through pricing services, the Firm's 
designated officer, trader(s) or portfolio manager(s) will obtain and 
document price information from at least one independent source, whether it 
is a broker-dealer, bank, pricing service or other source.
• The Compliance Officer or designee will arrange for periodic and frequent 
reviews of valuation information from whatever source to promptly identify 
any incorrect, stale or mis-priced securities.
• Any errors in pricing or valuations are to be resolved as promptly as 
possible, preferably upon a same day or next day basis, with re-pricing 
information obtained, reviewed and approved by the Compliance Officer or 
designee or the Firm's pricing committee.
• A summary of the Firm's pricing practices should be included in the Firm's 
investment management agreement.

For securities where ready valuation information is not available e.g., hedge funds, 
private placements, illiquid securities, derivatives or other such situations are to be 
reviewed and priced by the Compliance Officer or designee in good faith to reflect the 
security's fair and current market value.
**ERISA**

**Policy**

The Firm may act as an investment manager for advisory clients which are governed by the Employment Retirement Income Security Act (ERISA). As an investment manager and a fiduciary with special responsibilities under ERISA, and as a matter of policy, the Firm is responsible for acting solely in the interests of the plan participants and beneficiaries. The Firm's policy includes managing client assets consistent with the “prudent man rule,” exercising proxy voting authority if not retained by a plan fiduciary, maintaining any ERISA bonding that may be required, and obtaining written investment guidelines/policy statements, as appropriate.

**Background**

ERISA imposes duties on investment advisers that may exceed the scope of an adviser’s duties to its other clients. For example, ERISA specifically prohibits certain types of transactions with ERISA plan clients that are permissible (with appropriate disclosure) for other types of clients. ERISA also prohibits investment managers from refusing to take proxy voting responsibility when plan documents do not reserve that responsibility for the plan trustees or other parties. In certain instances, the Internal Revenue Code may impose requirements on non-ERISA retirement accounts that may mirror ERISA requirements.

**Responsibility**

The Compliance Officer or designee has the responsibility for the implementation and monitoring of our ERISA policy, practices, disclosures and recordkeeping.

**Procedure**

The Firm has adopted various procedures to implement the Firm’s policy and reviews to monitor and insure the Firm’s policy is observed, implemented properly and amended or updated, as appropriate, which include the following:
• On-going awareness and periodic reviews of a client’s investments and portfolio for consistency with the “prudent man rule.”
• A designated person or proxy committee for overseeing that any proxy voting functions are properly met and that ERISA plan client proxies are voted in the best interests of the plan participants.
• On-going awareness and periodic review of any client’s written investment policy statement/guidelines so as to be current and reflect a client’s objectives and guidelines.
• Maintain and renew on a periodic basis any ERISA bonding that may be required.

**Regulatory Reference:** ERISA

Investment advisers have special fiduciary responsibilities under the Representative Retirement Income Security Act of 1974 (ERISA).

These responsibilities are not governed solely by the SEC or the Advisers Act, but include the U.S. Department of Labor's rules for ERISA accounts. Typically, an representative benefit plan is covered by ERISA unless it is (1) an individual retirement account or annuity established by an individual representative to which his/her employer does not contribute; (2) a plan which covers only the sole owner of a business (incorporated or unincorporated) and/or his/her spouse; (3) a partnership pension plan which covers only partners and their spouses; or (4) a governmental plan. ERISA accounts include those established by pension plans, profit sharing and 401(k) plans and their trusts.

Under ERISA section 404(a)(1), plan fiduciaries, including persons to whom named fiduciaries delegate certain fiduciary responsibilities, such as investment managers, must discharge their duties solely in the interest of the participants and beneficiaries and,

1. for the exclusive purpose of providing benefits and defraying reasonable administrative expenses;
2. with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims (the prudent man rule);
3. by diversifying plan investments so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and
4. in accordance with the documents and instruments governing the plan insofar as such documents and instruments are consistent with the provisions of title I of ERISA.
Proxy Voting

In a release from the Department of Labor (Interpretive Bulletin #94-2, July 28, 1994), investment advisers (investment managers as defined under ERISA) were provided further guidance about their responsibilities under ERISA, including proxy voting, compliance with written statements of investment policy, and active monitoring of corporate management by plan fiduciaries.

The bulletin discusses:

1. Where the authority to manage plan assets has been delegated to an investment manager, only the investment manager has authority to vote proxies, except when the named fiduciary has reserved to itself or to another named fiduciary (as authorized by the plan document) the right to direct a plan trustee regarding the voting of proxies.
2. Investment managers, as plan fiduciaries, have a responsibility to vote proxies on foreign issues that may affect the value of the shares in the plan's portfolio.
3. An investment manager is required to comply with the statements of investment policy, unless compliance with the guidelines in a given instance would be imprudent and therefore failure to follow the guidelines would not violate ERISA. ERISA does not shield the investment manager from liability from imprudent actions taken in compliance with a statement of investment policy.
4. Several other areas including pooled accounts with multiple investment policies; the named fiduciary's responsibilities in monitoring the investment manager activity and shareholder activism.

Additionally, the Department of Labor has indicated that an investment adviser with a duty to vote proxies has an obligation to take reasonable steps under the circumstances to ensure that it receives the proxies. Failure of the adviser to take any action to reconcile proxies would cause the manager to fail to satisfy ERISA's fiduciary responsibility provisions. It is believed that appropriate steps would include informing the plan sponsor and its trustees, bank custodian or broker-dealer custodian of the requirement that all proxies be forwarded to the adviser and making periodic reviews during the proxy season, including follow-up letters and phone calls if necessary.

When voting proxies, an investment manager must consider proxies as a plan asset and vote only in the best economic interests of the plan participants, vote consistently among clients, and avoid specific client voting instructions about voting proxies, e.g., social voting is not appropriate.

Having voted the proxies, the Department of Labor has also indicated that the adviser must properly document its voting by keeping adequate records and that the named fiduciary has a duty to monitor the proxy voting process of the adviser. (NRS recommends segregating proxy records account-by-account.) Advisers should be
prepared to issue proxy voting reports to clients. Records of "solicitation" activities by issuers (or others) should be maintained. Records should reflect a verification of each proxy to each share to each account. (Records should be maintained in such a manner that it is easy to backtrack). Hard copies of each ballot should be maintained unless proxies are viewed and voted electronically.

For additional information please refer to the "AVON letter" (released 2/23/88) and the "MONKS letter" which relates to clarification of fiduciary requirements for proxy voting (released 1/23/90). (See Proxy Voting Section)

For SEC registered investment advisers who have proxy voting authority and responsibility for their clients, new proxy voting rules were adopted under the Advisers Act and became effective August 6, 2003 (See Proxy Voting Section).

**ERISA Bonds**

Investment advisers are required to be bonded if they manage any ERISA accounts, unless the contract includes a provision that the investment adviser is included as a named fiduciary on the Plan’s ERISA bond, and that a rider is attached to the bond adding the investment adviser as a named fiduciary. Proof of ERISA bonding is recommended.

**Plan and Trust Documents**

A copy of the plan document and the plan trust document should be obtained for ERISA clients. It may be acceptable to obtain only those relevant pages of these documents which apply to the relationship between the plan and the adviser (these pages would include, but are not limited to: authority to appoint an investment manager, proxy voting responsibilities, ERISA bonding, investment policy guidelines/restrictions, cash requirements, contribution and disbursement requirements, restrictions on securities, restrictions on percentage allocations, meeting schedules and reports required to be issued by the adviser).

**State-Registered Advisers**

On November 10, 1997, legislation was passed which allowed state-registered investment advisers to act as investment managers to ERISA plans. The law amended Title 1 of ERISA to allow state-registered advisers to be investment managers to ERISA plans if:

- the adviser is registered in the state in which it maintains its principal place of business; and
- the most recent registration form filed with the state is also filed with the Department of Labor or a registration depository.
State-registered advisers meet this filing requirement if the Firm has transitioned to IARD filings. For state registered advisers that have not transitioned to IARD filings, copies of the Firm’s current complete Form ADV and any other information required for state registration filings, e.g. financial statements, must be filed with the Department of Labor at the following address:

Investment Adviser Filings, Room N-5638  
U.S. Department of Labor, PWBA  
Office of Program Services  
200 Constitution Avenue, MW  
Washington, D.C. 20210

**Soft Dollars and Directed Brokerage**

A November 1997 ERISA Advisory Council report considered and made recommendations regarding soft dollar and directed brokerage practices.

The underlying principle for investment advisers is that as a fiduciary, the overriding responsibility is to discharge one’s duties with respect to a plan solely in the interests of the plan participants and beneficiaries and for the “exclusive benefit” of defraying reasonable expenses for administration of the plan. Self dealing and conflicts of interest must be avoided.

Soft dollar arrangements and directed brokerage programs, such as commission recapture arrangements, may be paid by using a plan’s commission dollars. Because the plan’s commission dollars are considered plan assets, advisers must prudently manage, and plan sponsors must oversee, these assets consistent with their fiduciary duties.

Recommendations made by the Advisory Council included the reporting of fees for directed brokerage and certifications by plan sponsors as to compliance with ERISA guidelines (ERISA Technical Release 86-1) and increased disclosures and interpretations by the SEC.

**ANY ERISA ISSUES SHOULD BE REVIEWED WITH QUALIFIED ERISA COUNSEL.**

The SEC report includes recommended (not required) practices for advisers and others to consider in reviewing and improving their own soft dollar practices. These include:

- A designated person or committee should act as a control point and oversee all aspects of the firm’s soft dollar and client-directed brokerage arrangements,
- Each representative should know what his or her responsibilities are regarding soft dollars and directed brokerage, and these responsibilities are reduced to writing in the firm’s policies and procedures,
- At the start of each year, the firm establishes a master brokerage budget listing the broker-dealers and the targeted commission amounts per broker and purpose for the allocations for the year,
- An annual list of third-party soft dollar arrangements should also be prepared as a control document for all third-party soft dollar arrangements. A similar list should be maintained for all client-directed brokerage arrangements.
- A designated person should periodically review and approve any changes in either the brokerage allocation budget or the list of third-party soft dollar arrangements,
- For mixed-use items, appropriate documentation is needed to determine and support a reasonable allocation of costs between hard and soft dollars. Adequate records must be maintained to support these allocation decisions.
- Form ADV disclosures concerning brokerage allocation and soft dollar activities should be approved by the appropriate persons to ensure consistency with the firm’s practices.
- The soft dollar committee, or designated person, should ensure that the firm’s written brokerage allocation and soft dollar procedures are followed by all appropriate areas.

The SEC has expanded its focus on soft dollar practices and abuses in its first case against a broker-dealer, and its chief executive officer, for aiding and abetting, causing and ignoring the “red flags” of an adviser’s violations of soft dollar practices and the Advisers Act. The broker-dealer paid, and the chief executive officer approved, the payments of soft dollar credits and benefits which were misappropriated for the personal benefit of principals of the adviser and for business expenses unrelated to research. (In re Republic New York Securities Corp. and J.E. Sweeney, Exchange Act Rel. No. 41056, 2/10/99.)

In another proceeding of particular interest, the SEC sanctioned and fined a firm and the
firm’s treasurer personally for not properly managing, documenting and disclosing the firm’s soft dollar practices and using soft dollars for improper travel, referral fees, and mixed use expenses. The SEC also noted inadequate resources and training in imposing the personal fine and sanctions. (In re Dawson-Samberg Capital Management and Judith Mack, IA Release No. 1889, 8/3/2000.)

**SOFT DOLLAR ARRANGEMENT DATA SHEET**
SOLICITOR ARRANGEMENTS

Policy

The Firm, as a matter of policy and practice, may compensate persons, i.e., individuals or entities, for the referral of advisory clients to the Firm provided appropriate disclosures and regulatory requirements are met.

Background

Under the SEC Cash Solicitation Rule, (Rule 206(4)-3) and comparable rules adopted by most states, investment advisers may compensate persons who solicit advisory clients for a Firm if appropriate agreements exist, specific disclosures are made, and other conditions met under the rules. Under the SEC rule, a solicitor is defined as "any person who, directly or indirectly, solicits any client for, or refers any client to, an investment adviser.

For the purposes of this policy, the definition of client includes any prospective client.

Responsibility

The Compliance Officer or designee has the responsibility for the implementation and monitoring of our cash solicitation policy, practices, disclosures and recordkeeping.

Procedure

The Firm has adopted various procedures to implement the Firm's policy and reviews to monitor and insure the Firm's policy is observed, implemented properly and amended or updated, as appropriate, which includes the following:

- The Firm's management has approved the Firm's solicitor policy.
- The Firm's Compliance Officer or designated officer reviews and approves any solicitor arrangements including approval of the particular solicitor's agreement(s), reviews of the solicitors' background, compensation arrangements, and related matters.
• The Firm's designated officer periodically monitors the Firm's solicitor arrangements to note any new or terminated relationships, makes sure appropriate records are maintained and solicitor fees paid and Form ADV disclosures are current and accurate.

**Regulatory Reference:** Solicitor Arrangements

**Referral Fees**

**Cash Payments for Client Solicitation**

For SEC registered investment advisers, the payment of referral fees to persons who solicit advisory clients is permitted, provided that all the applicable provisions of SEC Rule 206(4)-3 are followed. The rule requires:

1. the adviser is registered under the Advisers Act;
2. the solicitor is not a "bad boy," i.e., no conviction, etc. with respect to securities activities (NRS note: it is recommended that documentation be maintained reflecting the adviser's attempts at discovering this information);
3. the cash fee is paid pursuant to a written agreement with the adviser, a copy of which is retained in compliance with Reg. 204-2(a)(10); and
4. the fee is paid to a solicitor
   a. for solicitation services regarding providing impersonal advisory services; or
   b. who is a partner, representative, etc. of adviser (or affiliate), and such status is disclosed to client; or
   c. other than above, if all the following conditions are met:
      i. there is written agreement with the adviser which:
         1. Describes solicitation activities and compensation;
         2. Obligates solicitor to comply with adviser's instructions and the Advisers Act and rules;
         3. Obligates solicitor to provide client with adviser's brochure and a separate disclosure document which discloses the following:
            A. Solicitor's name;
            B. Adviser's name;
            C. Nature of relationship between solicitor and adviser;
            D. statement that solicitor is to be compensated by adviser;
            E. terms and description of compensation; and
F. the amount, if any, which will be charged to the client in addition to the advisory fee.

Prior to executing an advisory contract, the adviser must receive a signed and dated acknowledgment from the client evidencing receipt of the adviser's brochure and the solicitor's disclosure document. The acknowledgment must be retained by the adviser in compliance with SEC Rule 204-2(a)(15).

In a SEC enforcement action (in the matter of Aetna Capital Management, Inc. and Aetna Financial Services, Inc., Release No. IA-1379/August 19, 1993) an investment adviser did not properly disclose the referral arrangement in Form ADV, Schedule F, Item 13B. Investment advisers should evaluate their current disclosure in light of this release to determine if additional disclosure regarding referral fee arrangements and fees may be required.

The adviser should also notify the solicitor as to those states in which the solicitor may solicit the adviser's services. Many states have regulations that govern solicitors and generally define an investment adviser representative as any individual who solicits the adviser's services. Therefore, in many states, individual solicitors are required to register as investment adviser representatives of the adviser for whom they are soliciting or of another adviser with which the adviser for whom they are soliciting has a solicitation agreement.
CUSTODY

Policy

As a matter of policy and practice, the Firm does not maintain custody of advisory client funds, securities or assets. As an adviser with custody, the Firm's general policy is to ensure that we maintain client funds and securities with "qualified custodians" will provide at least quarterly account statements directly to our clients or a selected "independent representative."

Background

The custody rule under the Investment Advisers Act of 1940 now defines custody as "holding, directly or indirectly, client funds or securities, or having any authority to obtain possession of them." The custody definition now includes three examples to clarify what constitutes custody for advisers as follows:

1. possession of client funds or securities, unless an adviser receives them inadvertently e.g., from a client. If the adviser returns them within three business days of receipt, custody can be avoided (inadvertent custody);
2. any arrangement which authorizes or permits an adviser to withdraw client funds or securities, e.g., a general power of attorney, direct debiting of advisory fees, etc.; and
3. any capacity, e.g., general partner of a limited partnership, trustee, etc., that gives an adviser, or supervised person, legal ownership or access to client funds or securities.

The custody rule now requires advisers with custody to maintain client funds and securities with "qualified custodians," which include banks, registered broker-dealers, and certain foreign custodians, which provide at least quarterly account statements directly to the adviser's clients.

For advisers with custody who do use qualified custodians, the prior requirements of having a surprise annual audit and delivering an audited balance sheet as part of Form ADV Part II have been eliminated except as noted below.

For advisers with custody who do not use qualified custodians, they must still send quarterly account statements to clients and undergo an annual surprise examination by an independent public accountant to verify client funds and
securities. Any material discrepancies found by the accountant must be reported to the SEC within one day. The requirement to deliver an audited balance sheet with Form ADV Part II has been eliminated for these advisers also.

Advisers that deduct fees directly from client accounts will be deemed to have custody and must comply with the requirements of the new rule in lieu of prior no-action letters issued by the SEC. However, advisers that have custody only because they deduct fees may continue to answer "no" to the custody questions in Item 9 of Form ADV Part 1.

Responsibility

The Compliance Officer or designee has the responsibility for the implementation and monitoring of our policies, practices, disclosures, recordkeeping and other requirements as an advisory firm which does maintain custody of client funds, securities or assets.

Procedure

The Firm has adopted various procedures to implement the Firm’s policy and reviews to monitor and insure the Firm’s policy is observed, implemented properly and amended or updated, as appropriate which include the following:

As an advisory firm with custody, the Firm's procedures include the following practices:

- With the possible exception of certain privately-offered securities, securities and funds of custodial clients are maintained with a "qualified custodian" or, in the case of accounts holding shares of open-end mutual funds, the fund's transfer agent and held in the client's name or under the Firm as agent or trustee for the clients;
- The Firm has a reasonable belief that the qualified custodian(s) holding client assets provides at least quarterly account statements directly to those clients or an "independent representative" of their choosing that does not have a "control" relationship with the Firm and has not had a material business relationship within the past two years with the Firm;
- If the Firm acts as either general partner, managing member, or in some similar capacity and investment adviser to any pooled investment vehicle, the Firm will ensure that a qualified custodian sends an account statement, at least quarterly, directly to each of the investors in the pool unless the pooled investment vehicle is (i) audited annually, and (ii) the audited financial statements are prepared in accordance with GAAP and distributed to all
limited partners or other beneficial owners within 120 days of the end of its fiscal year;

- If there are circumstances in which a client does not receive account statements directly from a qualified custodian and the Firm is not relying upon one of the exemptions from these requirements, the Firm will send quarterly account statements to that client and undergo, at least annually, a surprise examination of the funds and securities over which the Firm has custody by an independent public accountant;
- The Firm will report, in response to Item 9 of Part 1A of Form ADV, that it has custody of client funds or securities unless the Firm has custody solely because it directly debits its advisory fees from client accounts; and
- Additionally, books and records are maintained for those clients for which the Firm maintains custody regarding client transactions, receipts/deliveries of funds and securities, confirmations and positions.

**Regulatory Reference: Custody**


The new custody rule, however, has no immediate and direct effect on state-registered investment advisers, which should continue to follow previously recognized guidelines and any state specific requirements regarding custody requirements. These procedures are discussed below. States are beginning to adopt the new SEC rule or alternative versions of the new rule and state particular requirements should be reviewed by state registered advisers.

**Summary of New SEC Custody Requirements**

**Rule 206(4)-2 of the Advisers Act-Revised**

The new rule defines custody as "holding, directly or indirectly, client funds or securities, or having any authority to obtain possession of them."

1. possession of client funds or securities, unless an adviser receives them inadvertently e.g., from a client. If the adviser returns inadvertently received funds or securities within three business days of receipt, custody is avoided (inadvertent custody). Also, an adviser may take possession of a check made payable to a third party without being deemed a custodian;
2. any arrangement which authorizes or permits an adviser to withdraw client funds or securities, e.g., check signing authority, a general power of attorney.
3. and acting in any capacity, e.g., general partner of a limited partnership, trustee, etc., that gives an adviser, or supervised person, legal ownership or access to client funds or securities.

The custody rule release withdraws the prior SEC no-action letters that advisers have relied upon for many years to avoid being deemed to have custody in many of the above situations. For example, SEC advisers who directly debit fees no longer can avoid being deemed a custodian by complying with John B. Kennedy No-Action letter (publicly available 6/5/96), which required that advisers send an invoice to clients at the same time they directly debit fees from the client’s account. Similar procedures followed by advisers based on SEC no-action letters regarding trustee relationships, limited partnerships, and other situations are also no longer effective.

Under the revised custody rule, many SEC-registered advisers will now have custody but can avoid the special additional requirements of custody if they maintain client funds and securities with "qualified custodians," defined as banks, registered broker-dealers, and certain foreign custodians, which provide at least quarterly account statements directly to the adviser’s clients or an independent representative of the client.

For SEC-registered advisers with custody who use a third party qualified custodian, the prior requirements of having a surprise annual audit and delivering an audited balance sheet as part of Form ADV Part II have been eliminated.

For SEC-registered advisers with custody who do not use third party qualified custodians, the adviser may itself become a qualified custodian by meeting the provisions of the rule designed to safeguard client assets. Such advisers are required by the new rule to send quarterly account statements to clients and undergo an annual surprise examination by an independent public accountant to verify all client funds and securities. Any material discrepancies found by the accountant must be reported to the SEC within one day. The previous requirement to deliver an audited balance sheet and Schedule G with Form ADV Part II, however, has been eliminated.

All SEC-registered advisers with custody under any of the above examples must comply with the new rule by April 1, 2004. Compliance requires:

(1) amending Form ADV, Part 1A, Item 9; and
(2)(a) if client funds and securities are maintained by third party qualified custodian(s), verifying that the qualified custodian(s) provides the client or an independent representative of the client with at least quarterly account statements; or
(2)(b) if the adviser’s clients’ funds and securities are not held by a third party qualified custodian but rather by the adviser then compliance with the account statement and independent audit requirements;
Additional special custody provisions also apply to advisers who act as general partners (or in some similar capacity) or as adviser to an investment pool, and to private securities. The new rule would require SEC-registered advisers who act in such capacity to send each investor an account statement quarterly. In the alternative, advisers may have the investment pool audited annually and provide the audited financial statements prepared in accordance with GAAP distributed to all limited partners within 120 days of the end of its fiscal year. Certain privately offered securities are also exempt from account statement reporting.

**Custody and State-Registered Advisers**

As mentioned above, the new custody rule adopted by the SEC does not have an immediate and direct effect on state-registered investment advisers. Until individual states assess the new rule and either adopt similar requirements or other alternatives, previous custody interpretations outlined below remain in effect for state-registered advisers.

An adviser has custody if it directly or indirectly holds client funds or securities, has any authority to obtain possession of them or has the ability to appropriate them. In addition, separate books and records are required when an adviser has custody. [Please note: Some states or jurisdictions (PR) prohibit an investment adviser from having custody of client funds and/or securities or impose additional requirements].

Following are custodial situations facing state-registered investment advisers which also summarize the prior SEC guidelines under various SEC no-action letters.

**Physical Custody of Client Assets**

Physical possession or control of client funds or securities constitutes custody, and this includes an adviser holding client assets in the adviser's name or in bearer form.

**Checkwriting Authority**

As accounting firms and CPAs become registered as investment advisers and for certain advisers, often clients of these firms authorize the firm to pay bills or disburse funds on the client’s behalf.

Advisers and accounting firms registered as advisers with such authority will be viewed as having actual custody and control of client funds and therefore, subject to the custody regulatory requirements summarized above.

**Direct Debiting of Advisory Fees**

An adviser may be deemed to have custody where the adviser directly debits advisory fees from client funds upon presentation of a bill to the custodian of the client's account.
However, under the John B. Kennedy No-Action letter (publicly available 6/5/96) an adviser will not be deemed to have custody if:

1. the adviser sends a statement to the client showing the amount of the fee, the value of the client’s assets upon which the fee was based, and the specific manner in which the fee was calculated;
2. the adviser discloses to the client that it is the client’s responsibility to verify the accuracy of the fee calculation and that the custodian will not determine whether the fee is properly calculated;
3. the adviser sends a bill to the custodian indicating only the amount of the fee to be paid by the custodian;
4. the client authorizes the adviser in writing to receive fee payments directly from the client’s account being held by an independent custodian; and
5. the independent custodian agrees to send the client, at least quarterly, a statement indicating all amounts disbursed from the account.

Note: to directly debit advisory fees from the account of a Michigan client, other conditions apply. Please review Michigan release 93-3-BD].

**Acting as Trustee/Executor**

Advisers may also be trustees or executors of client trusts or wills. These situations cause special custody considerations. Pursuant to the No-action letter, Blum Shapiro Financial Services, Inc. [publicly available 4/16/94] when a trust retains an officer or representative of the investment adviser as trustee (or executor of a will) and the investment adviser acts as investment adviser to that trust, to avoid itself being deemed a custodian the investment adviser will instruct the actual custodian of the trust as follows:

1. It will not deliver trust securities to any officer or representative of the investment adviser, nor will it transmit any funds to the investment adviser or to any of its representatives, except that the custodian may pay trustees' fees to the trustee and investment management fees to the investment adviser, provided that [subparagraphs (a), (b) and (c) of the release are followed]; and,
2. Other than as set forth in subparagraph (a), it may transfer funds or securities, or both, of the trust only upon the direction of an officer or representative of the investment adviser whom it has duly accepted as authorized signatory for such instruction to the custodian, and only to the following [subparagraphs (a), (b), (c), (d), and (e) of the release].
**Handling Client Funds or Securities**

An adviser will also be found to have custody if it receives client funds or securities. Accordingly, an adviser should not accept delivery of client securities, e.g., stock certificates, stock powers, bonds, etc. or checks drawn to the adviser. Securities given to an adviser should be returned to the client with instructions to deliver the securities directly to the client’s custodian. Also, an adviser’s possession of client checks drawn to the client’s broker/bank custodian or other third party is not custody or possession of client funds. [Hayes Financial Services, Inc. (publicly available 4/2/91)]

**Affiliates with Custody**

Advisers may also find themselves in situations with affiliates or with their own organizations (where the firm provides advisory and non-advisory services) where custody issues may apply. Five factors may be used to determine if an investment adviser has custody where another branch of the adviser's business, rather than the advisory business itself, has custody of client funds or securities. Advisers with affiliated entities should review the No-action letter, Volunteer Corporate Credit Union (publicly available 5/28/93) and the no-action letter that originally outlined the five factors, Crocker Investment Management Corp., (publicly available 4/17/78). The five factors are:

1. whether client property in the custody of the affiliated company might be subject, under any reasonable foreseeable circumstances, to the claim of the adviser's creditors;
2. whether advisory personnel have the opportunity to misappropriate client property;
3. whether advisory personnel ever have custody or possession of or direct or indirect access to client property, or the power to control the disposition of such property to third parties for the benefit of the adviser or its affiliated persons;
4. whether advisory personnel and personnel of the affiliated company who have possession or custody of, or control over, or access to, client property are under common supervision; and
5. whether advisory personnel hold any position with the custodian or share premises with the custodian and, if so, whether they have, either directly or indirectly, access to or control over client property.

**Acting as a General Partner and Adviser for Investment Partnerships**

Investment advisers that are general partners (and investment adviser) to investment partnerships will generally be deemed to have custody of clients’ funds and securities, unless the requirements set forth under the No-action letter to PIMS, Inc. (available
publicly 10/21/91) are met. In this letter, the following measures were required to avoid the adviser from being deemed a custodian:

1. The limited partnership instructs the partnership’s custodian to transfer its funds or securities to the adviser only for payment of advisory fees and upon partial redemption of the adviser’s capital investment in the partnership.

2. For the adviser’s receipt of advisory fees directly from the partnership’s account at an independent custodian, an adviser would not be deemed to have custody, control, or possession of the funds or securities of the partnership, if: a. an attorney or an independent certified public accountant for the partnership (“independent representative”) provides written authorization, in each case, permitting the advisory fees to be paid directly from the partnership’s account; b. the adviser sends to the independent representative a bill showing the amount of the fee, the value of the partnership’s assets on which the fee was based, and the specific manner in which the adviser’s fee was calculated and request for payment, with a copy of this bill provided to the custodian; and c. the custodian sends to the independent representative and to the partnership a statement, at least quarterly, indicating all amounts disbursed from the account including the amount of advisory fees that are paid directly to the adviser.

3. For an adviser’s withdrawal of funds that represents a bona fide reduction in its capital investment in the partnership, the adviser would not be deemed to have custody, control, or possession of the funds or securities of the partnership, if, in each case: a. the adviser sends to the independent representative the amount of redemption, number of partnership shares being redeemed, and information sufficient for such representative to calculate the correct amount of the capital account balances before and after the redemption request; b. the independent representative authorizes the custodian in writing to make such a transfer; and c. the custodian sends to the independent representative and to the partnership, at least quarterly, a statement indicating all amounts disbursed from the partnership’s account.

Note:
An independent representative could be an attorney, accountant or accounting firm. The independent representative may not concurrently be directly or indirectly associated with, represent, or provide services to the partnership’s adviser, the partnership or any general partner. [See No-action Letter MacDade Abbott LLC, publicly available 7/19/96 and also GBU, Inc. publicly available 4/22/93.]

**General Power of Attorney**

An adviser is likely to be found to have custody of client assets if the adviser holds a "general" power of attorney to act on behalf of, or in place of a client, or in managing a client's affairs/portfolio. This result occurs because a general power of attorney authorizes the adviser/principal's agent to control and withdraw funds. "Limited" powers of attorney are restricted in scope, and typically authorize trading in investments with no authority to withdraw funds or securities.

**Consequences of Custody by State-Registered Advisers**

All securities of each custodial client must be segregated, marked in such a way to identify the particular client who owns them and held in safekeeping.

All funds of a client must be deposited in a bank account which contains only client funds and the adviser must maintain a separate record for each such account. The adviser must notify each client as to the location of securities and funds and of any changes in the place or manner in which such assets are held. The adviser must send to each client, quarterly at minimum, an itemized statement of all of the client's securities and funds and all such funds and securities must be verified by an independent public accountant at least once a year during a surprise audit.

In addition, the custody rules require state-registered advisers with custody to deliver to clients an audited balance sheet on Form ADV Schedule G as part of Form ADV Part II (Form ADV Part II Item 14). The audited balance sheet must be prepared on an accrual basis and according to GAAP and Regulation S-X. The adviser's accountant must also prepare and file with the Form ADV-E regarding the accountant's surprise audit.

These requirements do not apply to advisers who are also registered as broker-dealers under Section 15 of the 1934 Act if such advisers are in compliance with Rule 15c3-1 under the Act or are members of an exchange whose members are exempt from that rule.

Certain states may either prohibit an adviser from having custody or require the adviser to meet specific additional requirements such as an audited financial statement, fidelity bonding, net capital requirements or a combination of these requirements. State registered advisers should determine if any such special requirements exist or apply.
PRIVACY

Policy

As a registered investment adviser, the Firm must comply with SEC Regulation S-P (or other applicable regulations), which requires registered advisers to adopt policies and procedures to protect the “nonpublic personal information” of natural person consumers and customers and to disclose to such persons policies and procedures for protecting that information. Nonpublic personal information includes nonpublic “personally identifiable financial information” plus any list, description or grouping of customers that is derived from nonpublic personally identifiable financial information. Such information may include personal financial and account information, information relating to services performed for or transactions entered into on behalf of clients, advice provided by the Firm to clients, and data or analyses derived from such nonpublic personal information. The Firm must also comply with the California Financial Information Privacy Act (SB1) if the Firm does business with California consumers.

Background

The purpose of these privacy policies and procedures is to provide administrative, technical and physical safeguards which assist representatives in maintaining the confidentiality of nonpublic personal information collected from the consumers and customers of an investment adviser. All nonpublic information, whether relating to an adviser's current or former clients, is subject to these privacy policies and procedures. Any doubts about the confidentiality of client information must be resolved in favor of confidentiality.

Responsibility

The Compliance Officer or designee is responsible for reviewing, maintaining and enforcing these policies and procedures to ensure meeting the Firm's client privacy goals and objectives while at a minimum ensuring compliance with applicable federal and state laws and regulations. The Compliance Officer or designee may recommend to the senior management any disciplinary or other action as appropriate. The Compliance Officer or designee is also responsible for distributing these policies and procedures to representatives and conducting appropriate representative training to ensure representative adherence to these policies and procedures.
Procedure

The Firm has adopted various procedures to implement the Firm’s policy and reviews to monitor and insure the Firm’s policy is observed, implemented properly and amended or updated, as appropriate, which include the following:

Non-Disclosure of Client Information

The Firm maintains safeguards to comply with federal and state standards to guard each client’s nonpublic personal information. The Firm does not share any nonpublic personal information with any nonaffiliated third parties, except in the following circumstances:

- As necessary to provide the service that the client has requested or authorized, or to maintain and service the client’s account;
- As required by regulatory authorities or law enforcement officials who have jurisdiction over the Firm, or as otherwise required by any applicable law; and
- To the extent reasonably necessary to prevent fraud and unauthorized transactions.

Representatives are prohibited, either during or after termination of their employment, from disclosing nonpublic personal information to any person or entity outside the Firm, including family members, except under the circumstances described above. A representative is permitted to disclose nonpublic personal information only to such other representatives who need to have access to such information to deliver our services to the client.

Security of Client Information

The Firm restricts access to nonpublic personal information to those representatives who need to know such information to provide services to our clients.

Any representative who is authorized to have access to nonpublic personal information is required to keep such information in a secure compartment or receptacle on a daily basis as of the close of business each day. All electronic or computer files containing such information shall be password secured and firewall protected from access by unauthorized persons. Any conversations involving nonpublic personal information, if appropriate at all, must be conducted by representatives in private, and care must be taken to avoid any unauthorized persons overhearing or intercepting such conversations.
Privacy Notices

The Firm will provide each natural person client with initial notice of the Firm’s current policy when the client relationship is established. The Firm shall also provide each such client with a new notice of the Firm’s current privacy policies at least annually. If the Firm shares nonpublic personal information relating to a California consumer with an affiliated company under circumstances not covered by an exception under SB1, the Firm will deliver to each affected consumer an opportunity to opt out of such information sharing. If, at any time, the Firm adopts material changes to its privacy policies, the Firm shall provide each such client with a revised notice reflecting the new privacy policies. The Compliance Officer or designee is responsible for ensuring that required notices are distributed to the Firm's consumers and customers.

Regulatory Reference: Privacy

The Gramm-Leach-Bliley Act (“GLB Act”), passed in November 1999, was a major and complex law designed to enhance competition in the financial industry by providing a prudent framework to allow banks, securities firms, insurance companies and financial services providers to form affiliations. To accomplish this, the law repealed certain important sections of the Glass-Steagall Act which had separated investment banking from commercial banking since the 1930s.

One section of the GLB Act provides for certain privacy requirements, i.e., protecting the personal information of consumers.

In response to these privacy requirements of the GLB Act, the SEC issued Regulation S-P on June 22, 2000, which became effective November 13, 2000, and required mandatory compliance by July 1, 2001.

Regulation S-P imposes complex and affirmative obligations on SEC registered broker/dealers, investment advisers and investment companies, among others. State-registered advisers are subject to the Federal Trade Commission’s privacy rules. Regulation S-P prohibits the sharing of non-public personal information with any non-affiliated third party unless the firm has provided notices of its privacy policies and an opt-out notice for consumers or customers to opt-out of the disclosure of such information. State laws may provide greater privacy protections and will apply to both SEC and state registered advisers.

The privacy rules require that firms provide “clear and conspicuous” notices that reflect its privacy policies and procedures initially to a “customer” at the time of establishing a customer relationship and annually during the relationship. A customer is one who has established a continuing relationship with the firm. Regulation S-P does not apply to;

a) business or institutional customers;
b) the sharing of information among affiliated entities; or

c) consumers, unless the firm intends to disclose a consumer’s personal information to non-affiliated third parties.

The initial and annual notices must be provided in writing, or electronically if a client consents, and must include the following:

- Categories of non-public personal information collected from and about consumers,
- Categories of non-public personal information that the firm may disclose,
- Categories of such information about former customers that is disclosed and to whom it is disclosed,
- An explanation of a consumer’s right and the method to opt-out of the disclosure of non-public personal information to non-affiliated third parties, and
- The firm’s policy and practice to protect the confidentiality, security and integrity of non-public personal information and disclosures under the Fair Credit Reporting Act.

Investment advisers, among others, must also adopt written policies and procedures which include these privacy requirements and are reasonably designed to ensure the security and confidentiality and protect against the unauthorized access or use of customer information. Regulation S-P allows a firm to tailor its policies and procedures to its own system of gathering and transferring information.

Special California Requirements

On July 1, 2004 the California Financial Information Privacy Act or SB1 became effective. Financial institutions doing business with California consumers, including SEC and state registered investment advisers, will be required to provide consumers with an opportunity to either "opt in" or "opt out" before nonpublic personal information is transferred from one firm to another. Investment advisers that do business in California should carefully review any information sharing practices they are currently engaged in to determine whether those practices fall within any exception to SB1. While it is possible that a pending lawsuit seeking federal preemption of those portions of SB1 related to information sharing among affiliates may succeed, investment advisers must take the necessary steps to achieve compliance with this privacy law in its entirety should preemption not occur.

Under SB1, unless a statutory exception applies, an investment adviser may not disclose nonpublic personal information to or with any nonaffiliated third parties without the "explicit prior consent" (opt in) of the consumer to whom the information relates. This is
a significant departure from the requirements of the GLB Act and Regulation S-P which require only an opt out when disclosures are made under similar circumstances.

Advisers must utilize a separate written form, statement or other writing to obtain a consumer's signed and dated consent to disclose nonpublic personal information to nonaffiliated third parties. This document must clearly and conspicuously explain the following: (a) that by consenting to these information practices, the adviser may share information with nonaffiliates until the consumer revokes or modifies their consent; (b) consent revocation can occur at any time, and (c) the procedures to revoke or modify one's consent.

SB1 follows the Federal privacy law in permitting financial institutions to share consumer nonpublic information with nonaffiliates for purposes of jointly offering financial products or services under formal, written agreements entered into on or after January 1, 2004. Those agreements must meet a number of specific requirements.

In another significant departure from the GLB Act and Regulation S-P, which do not regulate information sharing practices among affiliates, SB1 requires investment advisers to deliver to each affected consumer an opportunity to opt out of information sharing, even where the information is shared only among affiliated companies (other than with wholly owned subsidiaries or firms owned by the same financial institution that are regulated by the same GLB functional regulator and engage in the same line of business under a common "brand" name). SB1 does specify that a financial institution would not be deemed to have disclosed personal information to an affiliate merely because, among other things, representatives of the financial institution and its affiliates have access to common information systems or databases.

The opportunity to opt out must be offered to each affected consumer annually in writing. SB1 outlines the requirements for such forms and provides a sample opt out form. If the sample form is used, an adviser is conclusively presumed to have satisfied the requirements. If a different form is used other than the one provided in SB1, it must meet 12 enumerated criteria (e.g., font size, format, content, Flesch score, etc.) and it must be submitted to the Firm's functional regulator (e.g., Department of Corporations) for approval within 30 days after it is first used.

SB1 provides that an investment adviser with assets over $25 million must include with the consumer notice: (a) a first class business reply envelope or (2) a self-addressed return envelope and at least two free alternatives so that consumers may communicate their privacy choices (e.g., a toll-free number and website). Advisers with assets up to and including $25 million must include a self-addressed return envelope with the notice. If an adviser does not have a continuing relationship with a consumer other than the initial transaction, no annual disclosure requirement exists as long as the adviser provides the consumer with the required form at the time of the initial transaction.

A financial institution that has not provided a consumer with an annual notice shall provide the consumer with a form that meets the requirements and shall allow 45 days to
lapse from the date of providing the form in person or the postmark or other postal verification of mailing before disclosing nonpublic personal information pertaining to the consumer.

SB1 contains numerous untested exceptions to the opt in and opt out requirements. Some of the transactional exceptions, however, are not dissimilar to those contained in Regulation S-P. These exceptions include:

- Servicing or processing a financial product or service requested or authorized by the consumer;
- Information that is necessary to effect, administer or enforce a transaction;
- Disclosure at the consumer's request or direction;
- Information released to comply with Federal, state or local laws;
- Information released for institutional risk control or for resolving customer disputes or inquiries;
- Information released to a broker-dealer or investment adviser pursuant to a written contract for services relating to investment management services, portfolio advisory services, or financial planning.

An entity that discloses or shares information in violation of SB1 could become liable for civil penalties not to exceed $2,500 per violation. With respect to negligent disclosures there is an aggregate cap of $500,000. There is no cap on penalties that may be assessed for intentional disclosures. The California Attorney General or the functional regulator with jurisdiction over the entity may bring a civil action for enforcement of the new law.
PROXY VOTING

Policy

The Firm, as a matter of policy and as a fiduciary to our clients, has responsibility for voting proxies for portfolio securities consistent with the best economic interests of the clients. Our Firm maintains written policies and procedures as to the handling, research, voting and reporting of proxy voting and makes appropriate disclosures about our Firm’s proxy policies and practices. Our policy and practice includes the responsibility to monitor corporate actions, receive and vote client proxies and disclose any potential conflicts of interest as well as making information available to clients about the voting of proxies for their portfolio securities and maintaining relevant and required records.

Background

Proxy voting is an important right of shareholders and reasonable care and diligence must be undertaken to ensure that such rights are properly and timely exercised.

Investment advisers registered with the SEC, and which exercise voting authority with respect to client securities, are required by Rule 206(4)-6 of the Advisers Act to (a) adopt and implement written policies and procedures that are reasonably designed to ensure that client securities are voted in the best interests of clients, which must include how an adviser addresses material conflicts that may arise between an adviser's interests and those of its clients; (b) to disclose to clients how they may obtain information from the adviser with respect to the voting of proxies for their securities; (c) to describe to clients a summary of its proxy voting policies and procedures and, upon request, furnish a copy to its clients; and (d) maintain certain records relating to the adviser's proxy voting activities when the adviser does have proxy voting authority.

Responsibility

The Compliance Officer or designee has the responsibility for the implementation and monitoring of our proxy voting policy, practices, disclosures and record keeping, including outlining our voting guidelines in our procedures.
Procedure

The Firm has adopted procedures to implement the Firm’s policy and reviews to monitor and insure the Firm’s policy is observed, implemented properly and amended or updated, as appropriate, which include the following:

Voting Procedures

- All representatives will forward any proxy materials received on behalf of clients to the Compliance Officer or designee;
- The Compliance Officer or designee will determine which client accounts hold the security to which the proxy relates;
- Absent material conflicts, the Compliance Officer or designee will determine how the Firm should vote the proxy in accordance with applicable voting guidelines, complete the proxy and vote the proxy in a timely and appropriate manner.

Disclosure

- The Firm will provide conspicuously displayed information in its Disclosure Document summarizing this proxy voting policy and procedures, including a statement that clients may request information regarding how the Firm voted a client’s proxies, and that clients may request a copy of these policies and procedures.
- The Compliance Officer or designee will also send a copy of this summary to all existing clients who have previously received the Firm's Disclosure Document; or the Compliance Officer or designee may send each client the amended Disclosure Document. Either mailing shall highlight the inclusion of information regarding proxy voting.

Client Requests for Information

- All client requests for information regarding proxy votes, or policies and procedures, received by any representative should be forwarded to the Compliance Officer or designee.
- In response to any request, the Compliance Officer or designee will prepare a written response to the client with the information requested, and as applicable will include the name of the issuer, the proposal voted upon, and how the Firm voted the client’s proxy with respect to each proposal about which client inquired.
Voting Guidelines

- In the absence of specific voting guidelines from the client, the Firm will vote proxies in the best interests of each particular client. The Firm's policy is to vote all proxies from a specific issuer the same way for each client absent qualifying restrictions from a client. Clients are permitted to place reasonable restrictions on the Firm's voting authority in the same manner that they may place such restrictions on the actual selection of account securities.

- The Firm will generally vote in favor of routine corporate housekeeping proposals such as the election of directors and selection of auditors absent conflicts of interest raised by an auditor’s non-audit services.

- The Firm will generally vote against proposals that cause board members to become entrenched or cause unequal voting rights.

- In reviewing proposals, the Firm will further consider the opinion of management and the effect on management, and the effect on shareholder value and the issuer’s business practices.

Conflicts of Interest

- The Firm will identify any conflicts that exist between the interests of the adviser and the client by reviewing the relationship of the Firm with the issuer of each security to determine if the Firm or any of its representatives has any financial, business or personal relationship with the issuer.

- If a material conflict of interest exists, the Compliance Officer or designee will determine whether it is appropriate to disclose the conflict to the affected clients, to give the clients an opportunity to vote the proxies themselves, or to address the voting issue through other objective means such as voting in a manner consistent with a predetermined voting policy or receiving an independent third party voting recommendation.

- The Firm will maintain a record of the voting resolution of any conflict of interest.

Recordkeeping

The Compliance Officer or designee shall retain the following proxy records in accordance with the SEC’s five-year retention requirement.

- These policies and procedures and any amendments;

- Each proxy statement that the Firm receives;
- A record of each vote that the Firm casts;
- Any document the Firm created that was material to making a decision how to vote proxies, or that memorializes that decision including period reports to senior management;
- A copy of each written request from a client for information on how the Firm voted such client’s proxies, and a copy of any written response.

Regulatory Reference: Proxy Voting

Proxy Voting

Advisers as fiduciaries and investment managers may have responsibilities for voting proxies for the securities managed for clients. The Department of Labor has issued releases and guidelines for investment managers as fiduciaries to ERISA plans (See the ERISA Matters Section).

In January 2003, the SEC adopted a new rule 206(4)-6 and rule amendments under the Advisers Act (SEC Release No. IA-2106, 1/31/2003) that require SEC registered investment advisers who have proxy voting authority for clients to 1) adopt and implement written policies and procedures to ensure proxies are voted in the best interests of clients; 2) disclose to clients information about the firm’s proxy policies and procedures; 3) provide information to clients about how their proxies were voted, and 4) retain certain records related to proxy voting practices.

Every SEC investment adviser with responsibility for the voting of proxies for client securities are required to make and retain the following:
(1) Copies of all policies and procedures required by § 275.206(4)-6.

(2) A copy of each proxy statement that the investment adviser receives regarding client securities. An investment adviser may satisfy this requirement by relying on a third party to make and retain, on the investment adviser's behalf, a copy of a proxy statement (provided that the adviser has obtained an undertaking from the third party to provide a copy of the proxy statement promptly upon request) or may rely on obtaining a copy of a proxy statement from the Commission's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system.

(3) A record of each vote cast by the investment adviser on behalf of a client. An investment adviser may satisfy this requirement by relying on a third party to make and retain, on the investment adviser's behalf, a record of the vote cast (provided that the adviser has obtained an undertaking from the third party to provide a copy of the record promptly upon request).
(4) A copy of any document created by the adviser that was material to making a decision how to vote proxies on behalf of a client or that memorializes the basis for that decision.

(5) A copy of each written client request for information on how the adviser voted proxies on behalf of the client, and a copy of any written response by the investment adviser to any (written or oral) client request for information on how the adviser voted proxies on behalf of the requesting client. The proxy rules became effective on March 10, 2003 (effective date) and were required to be implemented by advisers by August 6, 2003 (compliance date).

In a companion release (SEC Release No. IC-25922, 1/31/2003), the SEC also adopted rule and form amendments under the Securities Act and Investment Firm Act that require registered investment companies to 1) disclose proxy policies and procedures about voting proxies for portfolio securities; 2) file with the SEC and market the mutual fund's record of proxy voting for portfolio securities available to shareholders and 3) disclose how shareholders may obtain proxy voting information.
WRAP FEE ADVISER

Policy

The Firm does not provide investment advice in a wrap fee program and is not compensated by the wrap fee sponsor for providing advisory services for the management of client portfolios participating in the wrap fee program(s).

If applicable, the Firm discloses its participation, services and fees in any wrap fee programs in Form ADV, determines that clients are appropriate for the Firm’s advisory services offered through the wrap fee program and counts and treats wrap fee clients as clients of the Firm.

Background

A wrap fee program is defined as any program under which any client is charged a specified fee or fees not based directly upon transactions in a client’s account for investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisers) and execution of client transactions.

Wrap fee programs also typically include custody services as part of the all-inclusive services in the program.

Responsibility

The Compliance Officer or designee has the responsibility for the implementation and monitoring of our wrap fee policy, practices, disclosures and recordkeeping.

Procedure

The Firm has adopted various procedures to implement the Firm's policy and reviews to monitor and insure the Firm's policy is observed, implemented properly, amended or updated as appropriate which include the following:

- The Firm's management approves the Firm's participation in any wrap fee program.
- The Firm's Compliance Officer or designee reviews and approves new wrap fee clients selecting the Firm's advisory services for each wrap fee program in which the Firm participates.
The Firm's Compliance Officer or designee periodically reviews and amends the Firm's Form ADV disclosures, as appropriate, to disclose the Firm's participation in wrap fee program(s).

The Firm arranges for either the Firm, or the wrap fee program sponsor, to deliver prospective clients the Firm's Form ADV Part II and the sponsor's Wrap Fee Disclosure Brochure (Schedule H) and to annually offer the Firm's Form ADV Part II to existing wrap fee clients.
WRAP FEE SPONSOR

Policy

The Firm does not sponsor a wrap fee program and is not compensated in the program for sponsoring, organizing or administering a program, or for selecting, or providing advice to clients regarding the selection of other investment advisers in the program.

As the sponsor, and as a matter of policy, the Firm, if applicable, has prepared a wrap fee disclosure brochure (Form ADV Schedule H) which is maintained on a current basis with appropriate disclosures regarding the program, fees, services, and conflicts of interest, among other things which is provided to any prospective clients who are appropriate for the wrap fee program and to any sub-advisers participating in the wrap fee.

Background

A wrap fee program is defined as any program under which any client is charged a specified fee or fees not based directly upon transactions in a client’s account for investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisers) and execution of client transactions.

Wrap fee programs also typically include custody services as part of the all-inclusive services in the program.

Responsibility

The Compliance Officer or designee has the responsibility for the implementation and monitoring of our wrap fee policy, practices, disclosures and recordkeeping.

Procedure

The Firm has adopted various procedures to implement the Firm’s policy and reviews to monitor and insure the Firm’s policy is observed, implemented properly and amended or updated, as appropriate which include the following:
The Firm's Compliance Officer or designee reviews on a periodic basis the components of the wrap fee program including, adviser(s), sub-advisers, broker-dealer and custodian(s) and the services provided by each.

The Firm's Compliance Officer or designee also reviews on a periodic basis, the Firm's Schedule H, Wrap Fee Disclosure Brochure, and Form ADV, and makes amendments as appropriate to maintain and insure the Firm’s disclosures and documents are accurate and current.

The Firm distributes the Firm’s Disclosure Document and Schedule H, Wrap Fee Disclosure Brochure, as amended, to advisers, sub-advisers and participants of the wrap fee program to deliver current Disclosure Brochures to prospective clients.

The Firm's Compliance Officer or designee is responsible for the Firm’s annual offer of its Disclosure Document and Schedule H to existing clients participating in the Firm’s wrap fee program.

Regulatory Reference: Wrap Fee

Form ADV Schedule H

Wrap-fee sponsors are required to provide a brochure for clients prepared in response to Form ADV Schedule H.

As defined in the instructions to Form ADV:

"A wrap fee program is any program under which any client is charged a specified fee or fees not based directly upon transactions in a client's account for investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisers) and execution of client transactions.

A sponsor of a wrap fee program is any applicant that is compensated under a wrap fee program for sponsoring, organizing, or administering the program, or for selecting, or providing advice to clients regarding the selection of, other investment advisers in the program."

The SEC's Division of Investment Management issued a letter in September, 1989 setting forth broad views with respect to "wrap-fee arrangements." Under such arrangements, brokers typically charge an annual flat fee based on a percentage of assets that covers both management and brokerage expenses, and provide clients with a money manager who actively manages the client's assets. Typically, the broker-dealer monitors the money manager's performance and executes its trades without charging a separate commission. The letter states that an adviser with discretion has a duty to provide suitable advice not only regarding types of investments but also regarding types of brokerage fee arrangements. The adviser must act in the best interests of his client and has a duty to
obtain best execution*. The letter states that not all clients are well-suited for a wrap fee arrangement, and that an adviser must carefully consider whether a wrap fee is suitable and appropriate for its client prior to entering into such an arrangement.

In SEC Release IA-1411 (4/19/94), the SEC adopted disclosure requirements for wrap fee programs adding a Schedule H to Form ADV as the wrap fee disclosure brochure. Required disclosures include fees, services provided and various other disclosures. In this Release, mutual fund asset allocation programs are excluded from the definition of “a wrap fee program” because these programs are more similar to traditional advisory services. Therefore, no Schedule H is required for mutual fund allocation programs.

Schedule H to the Form ADV, as the wrap fee disclosure brochure, must be provided to any prospective and current client by the sponsor or participating adviser in a wrap fee program. It must be updated as the Form ADV is updated.

Advisers involved in wrap fee programs should also review the SEC No-action letter to National Regulatory Services, Inc., (publicly available 12/2/92) in which the SEC identifies several issues relating to investment advisers and wrap fee sponsors. Included in the SEC comments are disclosure obligations and the creation and maintenance of records. Subadvisers in wrap fee programs are obligated to determine the suitability of securities transactions for the client as well as the suitability of their selection by the client as an investment adviser.

*In a September 30, 1994 speech, SEC Commissioner Richard Roberts indicated that "If a manager [in a wrap fee program] must send its trades to the program's broker-dealer, it appears to me that the manager can fulfill its duty of best execution only by disclosing to its client that under the program's constraints it may not be able to obtain best execution."

**Disclosure Requirements for Sub-Advisers in Wrap Fee Programs**

Advisers which do not sponsor wrap-fee programs but participate in the programs as portfolio managers or sub-advisers are still required to disclose these activities on Form ADV, Part II.

In 1994, the SEC amended the Advisers Act to include Schedule H (the wrap fee disclosure document). In addition, Form ADV was revised to include Schedule H. This Schedule is required to be delivered to all clients and prospective clients of the wrap fee program, instead of Part II of Form ADV (or the equivalent disclosure document).

In 1997, the SEC adopted Rule 3a-4 of the Investment Firm Act of 1940 which provides a non-exclusive safe harbor to exclude certain similarly-managed accounts from the definition of an investment company. Basically, the rule requires that each client receive individualized investment treatment. The conditions that must be met under Rule 3a-4 are as follows:
1. Each client’s account must be managed on the basis of the client’s financial situation and investment objectives and any reasonable investment restrictions the client may impose;
2. The program sponsor must obtain sufficient client information to be able to provide individualized investment advice to the client;
3. The sponsor and the portfolio manager must be reasonably available to consult with the client;
4. Each client must be able to impose reasonable investment restrictions on the management of the account;
5. Each client must receive a quarterly statement with a description of all account activity; and
6. Each client must retain certain indicia of ownership of the securities and funds in the account, e.g., the ability to withdraw securities, vote securities, among others.

Rule 3a-4 conditions should be carefully considered to ensure that wrap fee arrangements do not result in a finding that such arrangements are shares of an un-registered investment company.
SUPPLEMENTAL DOCUMENTATION
Cornerstone Professional Advisor Services, LLC
Quarterly Personal Securities Transaction Report

To: _________________________________
    Investment Advisor Representative

From: Compliance Officer, Al Figliolia

Re: Report of Personal Securities Transactions pursuant to Rule 204-2(a)(12) of the Investment
    Adviser Act of 1940 (“Advisors Act”):

PERSONAL TRADING ACCOUNTS

PLEASE COMPLETE SECTION A. OR B.

(This includes spouse, minor children, adults living in the same household and any trusts of which you are a trustee or have a beneficial interest)

A. Rule 204-2(a)(12) of the Advisors Act requires advisors to keep a record of every transaction in a security in which the investment advisor or any advisory representative of such investments advises has, or by reason of such transactions acquires, any direct or indirect beneficial interest. Such records shall state the title and amount of the security involved, the date and nature of the transaction, the price at which it was effected and the name of the broker-dealer or bank through whom the transaction was effected. The transaction shall be recorded not later than 10 days after the end of the calendar quarter in which the transaction was effected.

During the quarter ending ______, I have purchased/sold the following securities:

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<tr>
<th>Date</th>
<th>Security</th>
<th>Bought/Sold</th>
<th># of Shares</th>
<th>Price</th>
<th>Broker</th>
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See attached copies of statements for the quarter.

Special note concerning the above rule:
This requirement can be fulfilled by contacting your broker-dealer with whom you conduct your personal trades and give instructions to send duplicate statements to:

Cornerstone Professional Advisor Services, LLC
Attn: Al Figliolia
2946 Kent Road East
Wantagh, NY 11793

B. _____ During the above period, I have not purchase or sold any securities in my personal brokerage account or in any account in which I have a direct or indirect beneficial interest.

_____ I do not currently have a personal securities brokerage account. However, I agree to promptly notify Cornerstone Professional Advisor Services, LLC if I open such an account so long as I am a representative or Cornerstone Professional Adviser Services, LLC.

Signed: ______________________________ Date: _________________________
Report reviewed by: _______________________ Date: _________________________
Evaluation of Brokerage and Execution

Date: ___________

Manager/Trader: _____________________

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<th>Broker A $X.X</th>
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<th>Broker G $X.X</th>
<th>Broker H $X.X</th>
<th>Broker I $X.X</th>
<th>Broker J $X.X</th>
<th>List of top 3 for each region</th>
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Ratings are relative to level of service.
Please rank each cell A, B, C, D or F. C is average level of service
Leave cell blank is not applicable

Please use space below to provide and additional comments.
SAMPLE INVOICE

Mr. Joe Jones
1234 Some Road
Atlanta, Georgia 30303

July 1, 2003

Re: Advisor Fee for Management Services
Accounts under management #: 1111-2222, 3333-4444

Advisor fee paid through Account #: 1111-2222

July, August, September 2002

<table>
<thead>
<tr>
<th>Account #</th>
<th>Value</th>
<th>Rate</th>
<th>Amount Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>1111-2222</td>
<td>$500,000</td>
<td>@ .95%</td>
<td>$1,187,50</td>
</tr>
<tr>
<td>3333-4444</td>
<td>$250,000</td>
<td>@ .75%</td>
<td>$468.75</td>
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</tbody>
</table>

Total debited from account $1,656.25

(Do not remit payment. Fees debited from account noted above.)

Please contact (name of adviser) if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account. Our current disclosure statement is set forth on Part II of Form ADV and is available for your review upon request.

If you wish to receive a current copy of our Form ADV, please send your request in writing. We will be happy to provide one at no charge to you.

The custodian of your account is not responsible for reviewing the calculation of your fees. Please check this invoice for accuracy.
Sample Advisory Fee Invoice

This is only an advisory fee notification invoice. Please do not pay the advisory fees reflected on this invoice. Advisory fees will be automatically withdrawn from your account per your Advisory Agreement.

Client Name:  
Street Address:  
City, State Zip

Account Value as of 06/30/2000 $678,237.52

Annual Advisory Fee x____ 1.00%

$6,782.38
÷ ______365

18.58

Advisory Fee for the period of
07/01/2002 – 09/30/2002 x_______92 days in the quarter

Advisory Fee to be deducted  
From Account $1,709.36

Please contact (name of Adviser) if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account. Our current disclosure statement is set forth on Part II of Form ADV and is available for your review upon request.

You should take a moment to verify the accuracy of the fee calculation above. The custodian of the account will not verify the accuracy of fee calculations. Should there be any questions regarding this Invoice. Please contact _____________ at (###) ###-####.

(optional disclosure – this can satisfy the annual offer requirement)

*Name of Investment Adviser* is required to annually offer its advisory clients a copy of its Form ADV Part II. Our Form ADV Part II periodically changes from time to time and is updated to reflect our business. You were provided with a copy of the Form ADV Part II at the beginning of your advisory relationship. Should you want a copy of your most recent Form ADV Part II, please contact ________________ at (###) ###-####.
Cornerstone Professional Advisor Services, LLC, has always worked hard to maintain the highest standards of confidentiality and to respect the privacy of our client relationships. In that regard, we are providing this Privacy Notice to all of individual clients who obtain financial products and services from us for personal, family or household purposes, in accordance with the Title V of the Gramm-Leach-Bliley Act of 1999 and its implementing regulations. This notice supplements any privacy policies or statements that our or our affiliates may provide in connection with specific products or services.

The Information We Collect About You. The non-public personal information we collect about you (your "Information") comes primarily from the account applications or other forms you submit to us. We may also collect Information about your transactions and experiences with us, our affiliates, or others relating to the products and services we provide. Also, depending on the products or services you require, we may obtain additional Information from consumer reporting agencies.

Our Disclosure Policies. We do not disclose your Information to anyone, except in instances pursuant to your express consent, to fulfill your instructions, or to comply with applicable laws and regulations.

Our Information Security Policies. We limit access to your Information to those of our representative and service providers who are involved in offering or administering the products or services that we offer. We maintain physical, electronic and procedural safeguards that are designed to comply with the federal standards to guard your Information.

If our relationship ends, we will continue to treat the information as described in this Privacy Notice.

September 3, 2003
Job Descriptions

Al Figliolia
Chief Compliance Officer

- Training CPAS’s For Asset Manager
- Training CPAS’s For insurance
- Recruiting of CPAS’s
- Case Development
- Case Presentation
- Operational problems
- Organizes training seminars
- Prepare member kit
- Organizes & Coordinates College Planning Bus.
- Annual Compliance Reviews
- Answers Compliance questions
- Transferring of clients accounts to: Schwab, SEI and Manning
- Handles Insurance Agency
- Reviews State Appointments & Renewals
- Reviews Schwab, SEI & Manning new
- Account paperwork
- Perform annual audits on members
- Reviews Correspondence
Job Descriptions

David Kelly
Co-Chief Compliance Officer

New Accounts
- Reviewing applications for completeness
- Applications copies for files
- Forwarding applications to Schwab or 3rd-party money manager(s)
- Follow up tracking that accounts are opened properly
- Advising CPAS with new account info

Account Maintenance
- Follow up on transfers
- Process add on payments
- Process check requests
- Advise CPASs on transfers received into account

Schwab Contact
- Daily communication on account follow-ups
- Working with Schwab team to get problems handled
- Minimum 7 contacts per day

Implementation
- Filing out trading form for new account and add-on implementation
- Placing trades
- Verifying accuracy of trade placement
- Advising CPASs of trade activity & account status
- Monitoring funds in accounts
- Re-balancing accounts

Asset Allocation portfolios
- Monitoring of portfolio makeup
- Making adjustments as required
- Monitoring of recommended mutual funds
- Revising funds list based on filtering analysis
- Preparing of presentation folder for client
- Active and Passive money Management
Custom Plans
- Inputting data
- Analysis of holdings
- Clarifying with CPAS on client concerns
- Running asset allocation analysis
- Preparing implementation strategy
- Preparing presentation copy of plan for client
- Preparing copy for CPAS with notes
- Shipping plan to CPAS
- Follow up with CPAS before presentation to client

Technical Assistance/Help line
- Handling a minimum of 20 calls per day from CPASs
- Support on application questions
- Support on transfer questions
- Support on client meeting strategy
- Support on technical issues
- Support on financial planning issues
- Forwarding special forms requests to CPAS
- Questions on account status
- Questions on 3rd party money managers
- Questions on mutual fund
- If there is a concern or question with CPAS, I am the contact

Centerpiece
- Update and maintenance of database
- Downloading daily account info form custodians
- Reconciling of accounts
- Monthly billing of Schwab accounts
- Processing billing with Schwab
- Quarterly performance reports for Schwab accounts (4 pages-color)
- Reviewing all reports for accuracy
- Processing and shipping clients report and COA copy to CPAS

Schwablink
- Facilitating SL Masters for CPASs
- Assigning ID and Passwords
- Linking accounts to SL Masters
- Coordinating contact between Schwab technical services & CPASs
Other activities

- Processing complementary custom plans for new CPASs (all the work process referenced above)
- Prepares sample custom plans
- Talking with prospective CPASs on operations/technical questions per Area Directors.
- Providing request info & reports for meeting
- Compliance
- Approval for Stationary – Business cards, marketing brochures/letters and other types of correspondence
- Answer compliance questions
- Acts as anti-money laundering compliance officer
- Reviews documentation as it relates to the Patriot Act
- Reviews State appointments and renewals
Job Descriptions

Steve Madonna

- Prepares Financials of LLC
- Payroll distributions – CPAS’s
- Case Development
- 1099’s to CPAS’s
- Develops & Reviews Estate Tax planning
- Training of CPAS’s
- Prepares Federal & State Tax returns for Cornerstone
- Handles E & O insurance
- Recruits CPAS’s
- Handles Annual Mailing of ADV’s & Privacy Policy Notices to Clients
- Handles Mailings of Updates and Changes of ADVs to Clients
# Evaluation of Brokerage and Execution

**Date:** __________

Manager/Trader: _____________________

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<th>List of top 3 for each region</th>
<th>Broker A $X.X</th>
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<th>Broker H $X.X</th>
<th>Broker I $X.X</th>
<th>Broker J $X.X</th>
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</table>

- US
- Europe
- Japan
- Asia
- Latin America
- Eastern Europe

Rating are relative to level of service.
Please rank each cell A, B, C, D or F. C is average level of service
Leave cell blank is not applicable

Please use space below to provide and additional comments.
Sample order memorandum

Date: _______________ Security Recommended By: _______________
Buy/Sell: ____________ Order Entered By: ____________________
Executing Broker/Bank: _______________________________________
Terms and Conditions: _______________________________________

<table>
<thead>
<tr>
<th>Client Name/Account</th>
<th>Shares</th>
<th>Price</th>
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All orders entered pursuant to discretionary authority unless marked otherwise.
NEW ACCOUNT APPLICATION

Cornerstone Professional Advisor Services, LLC
New Account Form

RIA Account Number: ____________________________ Type of Account: Schwab: Active Manning: SEI: Passive

Registration:
individual __ joint w/Rights __ joint in common __ Non-NFS SEP __ UTMA/UGMA __ IRA Type: ____________________________


Account Registration and Mailing Address: Social Sec/Tax ID #: ____________________________ Third Party Statements:

Name: ____________________________ Address: ____________________________

(phone): ____________________________ Phone: ____________________________

(Requires Legal Street Address in addition to any PO Box mailing address) Third Party Tax ID #: ____________________________

City: ____________________________ State: __ Zip: ____________________________

*To comply with USA Patriot Act requirements, please complete the information below:

Owner: ID Type: Drivers License [ ] Gov't Photo ID [ ] Passport/Visa [ ]
State of Issue: ____________________________ ID/License Number: ____________________________ Expiration Date: __/__/____

Co-Owner: ID Type: State Driver's License [ ] Gov't Photo ID [ ] Passport/Visa [ ]
State of Issue: ____________________________ ID/License Number: ____________________________ Expiration Date: __/__/____

Date of Birth: ____________________________ US Citizen: ____________________________ Annual Income: ____________________________

Tax Bracket (circle one): ____________________________

0% 15% 20% 25% 30% 35% above 35%

Country: ____________________________

Investment Knowledge (circle one):
Limited Low Moderate Excellent
Good Aggressive Growth & Income
Balanced Growth Partnership Variable Products

Investment Objective (circle one): Speculation

Max. Growth

Investment experiences (circle one):
Equity Options Index Options

Stocks Bonds Mutual Funds

Primary Holder: Employer Name/Occupation: ____________________________

Joint Holder: Employer Name/Occupation: ____________________________

If not employed (circle one): Retired Student Other ____________________________ And indicate source of income:

If any member of client's immediate family is employed by a Bank, Insurance Co, Investment Advisor or Broker, please indicate the name, relationship and interest of firm:

Name: ____________________________ Address: ____________________________ Relationship: ____________________________

Indicate the Public Corp. where the client or clients immediate family has ever been a corporate officer, director or 10% owner: ____________________________

Under penalties of perjury, I (we) certify (1) the number shown on this form is my correct Taxpayer ID Number, and (2) I am not subject to backup withholding as a result of failure to report all interest or dividends, or (3) the Internal Revenue Service has notified me that I am no longer subject to backup withholding. Cross out (1) if subject to backup withholding. I understand that C.P.A.S., LLC will disclose my name to issuers of securities if securities are held in my account so that I can receive important information unless I notify C.P.A.S., LLC in writing that I do not consent. I further certify that I am at least 18 years of age and am of full legal age in the state in which I reside. I HEREBY ACKNOWLEDGE THAT I AM IN RECEIPT AND HAVE READ, UNDERSTOOD AND AGREED TO THE TERMS SET FORTH IN THE C.P.A.S., LLC CLIENT AGREEMENT AND THAT THIS ACCOUNT IS GOVERNED BY A PRE-DISPUTE ARBITRATION AGREEMENT WHICH I HAVE READ AND UNDERSTAND.

Client Signature: ____________________________ Date: ____________________________

Investment Advisor Representative: ____________________________ Date: ____________________________

Principal C.P.A.S., LLC: ____________________________ Date: ____________________________

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AGREEMENT TO ABIDE BY WRITTEN POLICIES AND PROCEDURES

This agreement is entered into by and between Cornerstone Professional Advisor services, LLC (the “Firm”) and the representative whose signature is represented below (the “Representative”).

By signing this agreement, the Representative acknowledges that:

1. He or she has received a copy of the Firm’s Policies and Procedures manual and the Firm’s Policy of Insider Trading;
2. He or she has read and understand the information contained in both documents; and,
3. He or she will abide by all rules, policies and procedures as described therein.

________________________________________  ______________________________
Representative       Date
AGREEMENT TO ABIDE BY WRITTEN POLICY ON INSIDER TRADING

The Firm forbids any officer, director, representative, investment advisory representative or other associated persons from trading, either personally or on behalf of others, on material non-public information or communicating material non-public information to others in violation of the Insider Trading and Securities Fraud Enforcement Act of 1988. This conduct is frequently referred to as "insider trading." This policy applies to every officer, director, representatives, investment advisory representative another associated persons and extends to activities within and outside their duties at the Firm. The "Agreement to Abide by the Written Policy of the Firm Insider Trading" must be read and signed by all officers, directors, representatives, investment advisory representatives and other associated persons. Any questions regarding this policy should be referred to the Firm's compliance department.

The term “insider trading" is not clearly defined in federal or state securities laws, but generally is used to refer to the use of material non-public information to trade in securities (whether or not one is an "insider") or to communications of material non-public information to others.

While the law concerning insider trading is not static, it is generally understood that the law prohibits:

- Trading by an insider on the basis of material non-public information;
- Trading by a non-insider on the basis of material non-public information, where the information was disclose to the non-insider in violation of an insider’s duty to keep it confidential or was misappropriated; or,
- Communicating material non-public information to others.

The elements of insider trading and penalties for such unlawful conduct are discussed below. If, after reviewing this policy statement, you have any questions you should consult the Firm's compliance department.

I. Who is an insider?

The term “insider” is broadly defined. It includes officers, directors and representatives of a Firm. In addition, a person can be a “temporary insider” if they enter into a special confidential relationship in the conduct of a Firm’s affairs and, as a result, are given access to information solely for the Firm’s purposes. A temporary insider can include, among others, a Firm’s attorneys, accountants consultants, bank lending officers, and the representatives of such Firm expects our Firm to keep the disclosed non-public information confidential and the relationship implies such a duty, than our Firm will be considered an insider.
II. What is Material Information?

Trading on insider information is not a basis for liability unless the information is material. "Material information" generally is defined as information that a reasonable investor would most likely consider important in making their investment decisions, or information that is reasonable certain to have a substantial effect on the price of a company's securities, regardless of whether the information is related directly to the company's business. Information that officers, directors, representatives, investment advisory representatives and other associated persons should consider material includes, but is not limited to: dividend changes; earnings estimates; changes in previously released earnings estimates; significant merger acquisition proposals or agreements; major litigation; liquidation problems; and, extraordinary management developments.

III. What is Non-public Information?

Information is non-public until it has been effectively communicated to the marketplace. For example, information found in a report filed with the SEC, or appearing in Dow Jones, Reuters Economic Services, The Wall Street Journal or other publications of general circulation would be considered public information.

IV. Penalties for Insider Trading

Penalties for trading on or communication material non-public information are severe, both for individual involved in such unlawful conduct and their employers. A person can be subject to some or all of the penalties described below even if they do not personally benefit from the activities surrounding the violation. Penalties include: civil injunctions; treble damages; disgorgement of profits; jail sentences; fines for the person who committed the violation of up to three times the profit gained or loss avoided, whether or not the person actually benefited; and fines for the employer or other controlling person of up to the greater of $1,000,000 or three times the amount of the profit gained or loss avoided. In additions, any violation of this policy statement can be expected to result in serious sanctions by the Firm, including dismissal of the persons involved.

V. Procedures to implement Insider Trading Policy

The following procedures have been established to aid the officers, directors, representatives. Investment advisory representatives and other associated persons of the Firm in avoiding insider trading. Failure to follow these procedures may result in dismissal, regulatory sanctions and criminal penalties.

A. Identify Insider Information
Before trading or making investment recommendations for yourself or others, including investment companies or private accounts managed by the Firm, or in the securities of a company about which you may have potential insider information, ask yourself the following questions:

1. Is the information material? Is this information that an investor would consider important in making an investment decision? Is this information that would substantially effect the market price of the securities if generally disclosed.

2. Is the information non-public? To whom has this information been provided? Has the information been effectively communicated to the market place by being published in publications of general circulation?

B. If, after consideration of the above, the information is material and non-public, or if further questions arise as to whether the information is material and non-public, the following procedures shall be followed:

1. Report the matter immediately to the compliance department of the Firm.

2. Do not purchase, sell or recommend securities on behalf of yourself or others, including accounts managed by the Firm.

3. Do not communicate the information inside or outside the Firm other than to the compliance department of the Firm.

4. After the compliance department has reviewed the issue, you will be instructed as to the proper course of action to take.

C. **Personal Securities Trading**

All officers, directors, representatives, investment advisory representatives and others associated persons of the Firm are required to submit a report to the Firm of every securities transaction in which they, their families (including spouse, minor children and adult living in the same household), and any trust of which they are trustees or in which they have a beneficial interest or are parties, within ten (10) days after the end of the calendar quarter in which the transactions were affected. This report shall include the names of the securities, dates of the transactions quantities, prices and broker/dealer or other entity through which the transactions were effected.

Prices and broker/dealer or other entity through which the transactions were effected.
This requirement may be satisfied by submitting copies of confirmations or account statements accompanied by a signed and dated notice of submission.

*Please fax to Al Figliolia ten days after the end of each quarter the Quarterly Personal Securities Transaction Report. (See supplemental documents in Section XXIV)*

**D. Restricting Access to Material Non-public Information**

Information in your possession that you identify as material and non-public may not be communicated to anyone, including person within the Firm except as provided in paragraph 1 above. In addition, care should be taken so that such information is secure. For example, files containing material non-public information should be sealed.

**E. Resolving Issues Concerning Insider Trading**

If, after consideration of the items set forth in paragraph 1, doubt remain as to whether information is material or non-public, or if there is any unresolved question as to the applicability or interpretation of the foregoing procedures, or as to the propriety of any action, it must be discussed with the compliance department of the Firm before trading or communication the information to anyone.

**F. Acknowledgement**

By affixing my signature below, I acknowledge that I have read and understood the foregoing policies and will comply in all respects with such policies.

_____________________________   ______________________________
Name        Date
<table>
<thead>
<tr>
<th>Name</th>
<th>Business Address</th>
<th>Phone #</th>
<th>Fax #</th>
<th>E-Mail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ackerman, Scott, CPA</td>
<td>66 So. Tyson Avenue, Floral Park, NY 11001</td>
<td>516-328-3800</td>
<td>516-488-4695</td>
<td><a href="mailto:scott@wfracpa.com">scott@wfracpa.com</a></td>
</tr>
<tr>
<td>Bivins, James CPA</td>
<td>860 East River Place, Ste 200, Jackson, MS 39202</td>
<td>601-352-2036</td>
<td>601-352-2037</td>
<td><a href="mailto:elbertbiving@iuno.com">elbertbiving@iuno.com</a></td>
</tr>
<tr>
<td>Botsch, Keith, CPA</td>
<td>113 E. Main St., Carmi, IL 62821</td>
<td>618-382-4151</td>
<td>618-382-4153</td>
<td><a href="mailto:keith@botsch.com">keith@botsch.com</a></td>
</tr>
<tr>
<td>Cardillo, Jim, CPA</td>
<td>555 Pleasantville Rd, Suite230N, Briarcliffe Manor, NY 10510</td>
<td>914-747-5004</td>
<td>914-747-5006</td>
<td><a href="mailto:jimcard@cs.com">jimcard@cs.com</a></td>
</tr>
<tr>
<td>Fecci, Eric, CPA</td>
<td>272 Route 202, Somers, NY 10589</td>
<td>914-669-4100</td>
<td>914-669-4101</td>
<td><a href="mailto:Eric@RosenbergandFecci.com">Eric@RosenbergandFecci.com</a></td>
</tr>
<tr>
<td>Figliolia, Alfonso</td>
<td>2946 kent Road East, Wantagh, NY 11793</td>
<td>516-783-9486</td>
<td>516-221-6165</td>
<td><a href="mailto:alfigliolia@cpasllc.com">alfigliolia@cpasllc.com</a></td>
</tr>
<tr>
<td>Fine, Sheryl, CPA</td>
<td>66 So. Tyson Avenue, Floral Park, NY 11001</td>
<td>516-328-3800</td>
<td>516-488-4695</td>
<td><a href="mailto:sheryl@wfracpa.com">sheryl@wfracpa.com</a></td>
</tr>
<tr>
<td>Garner, Norman CPA</td>
<td>1909 Central Drive #307, Bedford TX 76021</td>
<td>817-685-5828</td>
<td>817-685-1068</td>
<td><a href="mailto:soundinvesting@sbcglobal.net">soundinvesting@sbcglobal.net</a></td>
</tr>
<tr>
<td>Gladstone, Alvin, CPA</td>
<td>80 Cutter Mill Road, Great Neck, NY 11021</td>
<td>516-466-6657</td>
<td>516-466-8289</td>
<td><a href="mailto:agladstone@cpasllc.com">agladstone@cpasllc.com</a></td>
</tr>
<tr>
<td>Gould, Ron, CPA</td>
<td>920 s. Winton Road, Rochester, NY 14618</td>
<td>585-461-9000</td>
<td>585-461-1075</td>
<td><a href="mailto:gouldcpa@aol.com">gouldcpa@aol.com</a></td>
</tr>
<tr>
<td>Grubman, Robert, CPA</td>
<td>535 Fifth Avenue (21st Floor), New York, NY 10017</td>
<td>212-867-7832</td>
<td>212-867-7838</td>
<td><a href="mailto:rgrubman@grubmanny.com">rgrubman@grubmanny.com</a></td>
</tr>
<tr>
<td>Kelly, David, CFP</td>
<td>400 No. Carroll Avenue, Southlake, TX 76092</td>
<td>817-410-3715</td>
<td>817-410-3716</td>
<td><a href="mailto:dk2@ix.netcom.com">dk2@ix.netcom.com</a></td>
</tr>
<tr>
<td>Madonna, Steven, CPA</td>
<td>80 Cutter Mill Road, Great Neck, NY 11021</td>
<td>516-466-6657</td>
<td>516-466-8289</td>
<td><a href="mailto:smadonna@cpasllc.com">smadonna@cpasllc.com</a></td>
</tr>
<tr>
<td>Montgomery, Wilkins, CPA</td>
<td>860 East River Place, Ste 200, Jackson, MS 39202</td>
<td>601-352-2036</td>
<td>601-352-2037</td>
<td><a href="mailto:montymontgomery@montgomeryrivins.com">montymontgomery@montgomeryrivins.com</a></td>
</tr>
<tr>
<td>Richman, Sam, CPA</td>
<td>66 So. Tyson Avenue, Floral Park, NY 11001</td>
<td>516-328-3800</td>
<td>516-488-4695</td>
<td><a href="mailto:sam@wfracpa.com">sam@wfracpa.com</a></td>
</tr>
<tr>
<td>Schaffer, Larry, CPA</td>
<td>80 Cutter Mill Road, Great Neck, NY 11021</td>
<td>516-466-6657</td>
<td>516-466-8289</td>
<td><a href="mailto:lschaffer@cpasllc.com">lschaffer@cpasllc.com</a></td>
</tr>
<tr>
<td>Schreiber, Ellyn</td>
<td>80 Cutter Mill Road, Great Neck, NY 11021</td>
<td>516-466-6657</td>
<td>516-466-8289</td>
<td><a href="mailto:eschreiber@cpasllc.com">eschreiber@cpasllc.com</a></td>
</tr>
<tr>
<td>Singer, Ken, CPA</td>
<td>450 Seventh Avenue, New York, NY 10001</td>
<td>212-760-8200</td>
<td>212-760-8823</td>
<td><a href="mailto:singerassetmgr@aol.com">singerassetmgr@aol.com</a></td>
</tr>
<tr>
<td>Wagner, Stephen, CPA</td>
<td>66 So. Tyson Avenue, Floral Park, NY 11001</td>
<td>516-328-3800</td>
<td>516-488-4695</td>
<td><a href="mailto:wfra@wfracpa.com">wfra@wfracpa.com</a></td>
</tr>
</tbody>
</table>

**CORNERSTONE PROFESSIONAL ADVISOR SERVICES, LLC Insurance Agents**

<table>
<thead>
<tr>
<th>Name</th>
<th>Business Address</th>
<th>Phone #</th>
<th>Fax #</th>
<th>E-Mail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elenbogen, Boris</td>
<td>80 Cutter Mill Road, Great Neck, NY 11021</td>
<td>516-466-1119</td>
<td>516-466-8289</td>
<td><a href="mailto:elenbogen@nyc.rr.com">elenbogen@nyc.rr.com</a></td>
</tr>
<tr>
<td>Losquadro, Thomas, CPA</td>
<td>193 Cliff Road West, Wading River, NY 11792</td>
<td>631-929-8400</td>
<td>631-929-8126</td>
<td><a href="mailto:cpa719@optonline.net">cpa719@optonline.net</a></td>
</tr>
<tr>
<td>Marks, Carolyn D</td>
<td>23B Pequot Ave., Port Washington, NY 11050</td>
<td>516-767-2085</td>
<td>516-767-2085</td>
<td><a href="mailto:cmarks1065@aol.com">cmarks1065@aol.com</a></td>
</tr>
<tr>
<td>Rovner, Aronld</td>
<td>80 Cutter Mill Road, Great Neck, NY 11021</td>
<td>516-466-1119</td>
<td>516-466-8289</td>
<td><a href="mailto:arovner@cpasllc.com">arovner@cpasllc.com</a></td>
</tr>
</tbody>
</table>
# Cornerstone File Checklist

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
<th>Date</th>
<th>Comments:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Client:**

- Cornerstone PAS, LLC New Account Form
- Filled in Completely
- Customer Application
- Copy of Check

**Other Account Documentation:**

---

**Client:**

- Cornerstone PAS, LLC New Account Form
- Filled in Completely
- Customer Application
- Copy of Check

**Other Account Documentation:**

---

**Client:**

- Cornerstone PAS, LLC New Account Form
- Filled in Completely
- Customer Application
- Copy of Check

**Other Account Documentation:**
Model Disaster Recovery Plan for
Cornerstone Professional Advisor Services, LLC
Dated 9/1/03

Cornerstone Professional Advisor Services, LLC has developed the following procedures to launch a timely recovery from a disaster. The basis of these procedures is to minimize the impact of a disaster to the firm, its employees, vendors and clients.

**Declaring an Emergency**
David Kelly will be considered the Disaster Team Leader and will be responsible for declaring an emergency situation. In the event David Kelly is not able to make such a declaration the responsibility will be passed on to the next person on the Team Alert (see page 10) and so on and so forth until designated Team Member can make such a declaration.

Al Figliolia will be responsible for maintaining a list of all current employees and their contact information (see page 12). A copy of this list is attached. It is the responsibility to Al Figliolia to maintain this list and keep it current. All employees are required to review the list and make any appropriate changes at least semi-annually. Employees that are concerned about privacy issues are requested to discuss this concern with David Kelly and special arrangements will be made to mitigate such concerns.

A copy of this list will be distributed to each employee Cornerstone Professional Advisor Services, LLC and should be kept by each employee on-site as well as at home. In the event of a disaster David Kelly will notify the firms senior officers to review the extent of the emergency and make a decision on which plan of action should be followed. If the senior officers cannot be reached Al Figliolia or the next in line on the Team Alert List) shall take it upon him/herself to make such decisions. Once a determination has been made, Al Figliolia will call each employee, or designate someone to make such calls, advise the employee or emergency declaration and provide instructions to the employee.

**Destruction of the Firms Principal Place of Business**
In the event that the principal place of business is destroyed or damaged to a point where it cannot be utilized, Al Figliolia will contact each employee and provide instructions for reporting to work. The firm has made the following arrangements in case of such an emergency.
<table>
<thead>
<tr>
<th>PRIMARY LOCATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facility Name:</td>
</tr>
<tr>
<td>Street Address: 2946 Kent Rd. East</td>
</tr>
<tr>
<td>City/State/Zip: Wantagh, NY 11793</td>
</tr>
<tr>
<td>Contact Person: Al Figliolia</td>
</tr>
<tr>
<td>Alternate Contact:</td>
</tr>
<tr>
<td>Security Considerations:</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ALTERNATE LOCATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facility Name: Cornerstone professional Advisor Services, LLC</td>
</tr>
<tr>
<td>Street Address: 80 Cutter Mill Rd.</td>
</tr>
<tr>
<td>City/State/Zip: Great Neck, NY 11021</td>
</tr>
<tr>
<td>Contact Person: Steven Madonna</td>
</tr>
<tr>
<td>Alternate Contact: Al Figliolia</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
Please review the following when making your choice of primary and secondary sites Meeting Place Description

Select a place to meet in case your facility is unavailable. Make sure key people know the location, and have maps if necessary. This pre-defined meeting place will serve as a location for you and your key staff to plan your response to the incident.

In choosing this meeting place, think about any key resources you would need, and consider its location. Some of the resources and location considerations are:

- **Location:** When selecting your meeting place, consider its location relative to your normal work place and to the key staff members you would call together there. The location should not be so far away that staff members would have difficulty getting there. Conversely, it should not be so close to your normal work location that it could be affected by the same incident. For example, following certain incidents, authorities may block off several city blocks around the affected facility. If your meeting place is across the street from your normal work location, you might not be able to get to it in this situation.

- **Alternate Meeting Place:** To solve the above issue, it is recommended that you select at least two possible meeting locations. Your primary location could be close to your facility, and be used if access is possible. Your alternate location should be further away, ensuring availability if your primary location is not accessible.

- **Vulnerabilities:** When selecting a location for your meeting place, especially for your alternate location be sure to consider the types of vulnerabilities you have. For example, your meeting place should be inland, if your primary location is near a river, your meeting location should be on high ground. If your primary location is near an earthquake fault, your meeting location should be at a reasonable distance away from the fault line.

- **Communications capability:** Since the ability to communicate with others is essential to effectively respond to any incident, make sure that the location you choose has enough telephones for your needs. If you have a cellular phone, you should plan to take it with you to this meeting place as another means of communications, and in the case regular phones are not working. If you have a portable/laptop computer with internet or e-mail capabilities, your meeting place should have the capability to connect that computer as well. Assuming your laptop computer was not in the affected building, you should plan to take that laptop to the meeting place too.
• **Size of the Facility:** The location you choose should be big enough for the number of people that are expected to congregate there. This is not an alternate place for your staff to work, though, only a place for you and your key staff to discuss your plan of action in response to the event, and to manage your recovery efforts. Therefore, it does not need to be so big that your entire staff can work there if your facility is affected. The alternate work location will come later when your completer Business Continuity Plan is documented.

Types of facilities to consider when selecting a meeting place include:

• Another company facility
• A hotel, convention center, or other public facility

When documenting your meeting place, you should include its name, street address, who to contact to get in, and any security requirements. You should also consider appending a map to the location and a floor plan of the facility if they are not well known to the staff.

**Notification of Proper Authorities**

After an emergency has been declared David Kelly will notify the proper regulatory authorities of the nature of the emergency, and the temporary location of the firm. Additionally, David Kelly will notify the local public utilities, the telephone company, the post office and any other vendor as deemed necessary (see page 16).

**Equipment/Hardware**

David Kelly will maintain a list of all equipment, hardware and software, used by the firm. The list shall contain the item, the serial number, and manufacturers and serial/registration number. Steven Madonna will notify the firm’s insurance company of any damage.

**Client Information and Client Trading Records**

Original client agreements, contracts, profiles, and other documentation related to each client as well as trading records, brokerage statements and confirmations are maintained at the principal pace of business for the appropriate time that is required by law. After such time the documentation may be moved off site to a secure facility where both client and firm confidentially can be assured.

Copies of all client information shall be kept at a secure off-site locations. If it is not practical to keep paper copies, electronic facsimiles may be kept in a format that is easily retrievable, i.e. pdf, fit, gif, etc., and in a timely manner.

Semi-annually, Al Figliolia will review these disaster recovery plans pertaining to our client’s records to assure that these records will be adequately maintained in the event of a disaster or emergency.
Communication with Clients

Upon the declaration of an emergency, where normal lines of communication are no longer available, all personnel will attempt to communicate with their clients via any means available, each advisory representative will maintain a list of their current clients that includes all know contact numbers (home, work, cell phone, pager number and email addresses). If the advisory representative is unable to contact their clients they shall report the situations to Al Figliolia. Upon notification Al Figliolia will attempt to contact the client. Al Figliolia will keep a log of each attempt and each client contacted.

Preparedness of Vendors and Custodian

David Kelly will request copies from all critical vendors and custodians of their Disaster Recovery Plan or a confirmation from such vendors or custodian that a plan exists and is current and has been tested. Al Figliolia will maintain a log of all vendors or custodians and their emergency contact numbers. Such list shall be reviewed semi-annually.

David Kelly will discuss vendors and custodians preparedness with the principals of the firm in the event David Kelly is not satisfied that any such vendor or custodian is adequately prepared for an emergency, If David Kelly is not satisfied he/she should contact the vendor or custodian and discuss any concerns relative to the plan he/she should contact and the vendor or custodian and discuss any concerns relative to the plan that he/she may have. Such conversations will be documented and kept in a vendor and custodian file.

Notification of clients of the Firms Disaster Recovery Policies

Al Figliolia/Steve Madonna will notify each client upon the opening of his or her account and again annually of the disaster preparedness plans. The notification will contain contact numbers (such as telephone numbers, internet address, pager numbers, etc.) that may be used by the client to reach someone at Cornerstone Professional Advisor Services, LLC in case of an emergency. A record of such notification will be kept in the client correspondence file.

If key personal are unable to carry out their usual duties, the notification will contain the telephone number and a contact person at the custodian firm that will assist the client.
Team Alert Description

Instructions for completing the form:

Following is information that should be included in the Team Alert List for each Team member:

- Name
- Home telephone number
- Page number, if available
- Cellular telephone number, if available for emergency
- Contact
- Relationship to Team Member
- Phone number

For emergencies: “Contact” is the name of the person to call, “Relationship” relates to spouse, parent, son or daughter etc. “Phone” is the number where the person is most likely to be reached.

If team members do not have pagers or cellular phones – leave those entries blank.

Some staff members may be concerned about having their home information published. They may, for example, have an unlisted home number. It is essential that all employees provide a means to be contacted following an incident. These team members must be assured that this information will only be distributed on a “need to know” basis, and that the information will have limited access.

This information is most easily gathered by distributing the attached Team Alert List to the employees for them to completed. Accuracy of the information is most easily assured in this way. The information gathered can be keyed directly to the Team Alert List on the following page.
# Team Alert List

<table>
<thead>
<tr>
<th>Team Leader Name</th>
<th>Home #:</th>
<th>Date/Time:</th>
<th>Cell phone #:</th>
<th>Pager #:</th>
<th>Status:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Al Figliolia</td>
<td>516-221-6309</td>
<td></td>
<td>516-749-9569</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For Emergency:

Contact: Roseanna  Relation: Wife  Phone: 516-393-8921

## The Team Leader Calls the following:

<table>
<thead>
<tr>
<th>Alternate Team Leader Name</th>
<th>Home#:</th>
<th>Date/Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steven Madonna</td>
<td>516-681-6447</td>
<td></td>
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<table>
<thead>
<tr>
<th>Cell Pone #:</th>
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<tr>
<td>516-375-2647</td>
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<table>
<thead>
<tr>
<th>Name</th>
<th>Home #:</th>
<th>Date/Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>David Kelley</td>
<td>817-410-3715</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cell Phone #:</th>
<th>Pager #:</th>
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</tr>
</thead>
<tbody>
<tr>
<td>817-235-6105</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Employee Call List Description

The completed Employee Call List should be attached to this Plan.

Instructions for completing the form:

Following is information that should be included in the Employee Call List for each employee:

- Name
- Title
- Address (Street address, not post office box number)
- Office telephone number
- Home telephone number
- Pager number, if available
- Cellular telephone number, if available
- Personal e-mail address, if available
- Alternate telephone number

Home street address is needed in case telephones are out of orders and another employee must be dispatched to physically locate the employee.
Alternate telephone number is any additional number by which the employee can be contacted. Examples include the employee’s weekend cottage or telephone number of a relative who will usually know how to reach the employee.

If employees do not have pagers, cellular phones, or personal e-mail addresses leave those entries blank.

Some staff members may be concerned about having their home information published. They may, for example, have an unlisted home number. It is essential that all employees provide a means to be contacted following an incident. These employees must be reassured that this information will only be distributed on a “need to know” basis, and that the information will have limited access.

This information is most easily gathered by distributing the attached Employee Contact Information Data Collection Form to the employee for them to complete. Accuracy of the information is most easily assured in this way. The following Employee Call List form can then be used to consolidate the information from the individual employees.
Before distributing the form titled “Employee Contact Information Data Collection Form” to the employees, insert your name as the person the form should be returned to and the date by which you want it completed.

Employee Data Collection Form

<table>
<thead>
<tr>
<th>Name:</th>
<th>Al Figliolia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title:</td>
<td>Member</td>
</tr>
<tr>
<td>Address:</td>
<td>2946 Kent Road East</td>
</tr>
<tr>
<td>City/State/Zip:</td>
<td>Wantagh, NY 11793</td>
</tr>
<tr>
<td>Office Phone:</td>
<td>516-783-9486</td>
</tr>
<tr>
<td>Pager:</td>
<td></td>
</tr>
<tr>
<td>e-mail:</td>
<td><a href="mailto:afigliol@optonline.net">afigliol@optonline.net</a></td>
</tr>
<tr>
<td>Home:</td>
<td>516-221-6309</td>
</tr>
<tr>
<td>Cellular:</td>
<td>516-749-9569</td>
</tr>
<tr>
<td>Alt. number:</td>
<td>516-783-1112</td>
</tr>
</tbody>
</table>

Please return the completed form to: Al Figliolia

The information you provide will be a part of Cornerstone Professional Advisor Services, LLC’s disaster recovery plan. In the event of an emergency, management may need to contact you to inform you in changes of work hours or locations. Your contact information will only be available within the recovery plan that will have limited distribution.
# Employee Call List (as of April 12, 2006)

<table>
<thead>
<tr>
<th>Name</th>
<th>Business Address</th>
<th>Phone #</th>
<th>Fax #</th>
<th>E-Mail</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACKERMAN, SCOTT, CPA</td>
<td>66 So. Tyson Avenue, Floral Park, NY 11001</td>
<td>516-328-3800</td>
<td>516-488-4695</td>
<td><a href="mailto:scott@wfracpa.com">scott@wfracpa.com</a></td>
</tr>
<tr>
<td>BIVINSET, JAMES CPA</td>
<td>860 East River Place, Ste 200, Jackson, MS 39202</td>
<td>601-352-2036</td>
<td>601-352-2037</td>
<td><a href="mailto:elibertbiving@juno.com">elibertbiving@juno.com</a></td>
</tr>
<tr>
<td>(aka Elbert Bivins)</td>
<td></td>
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</tr>
<tr>
<td>BOTSCHE, KEITH, CPA</td>
<td>113 E. Main St., Carmi, IL 62821</td>
<td>618-382-4151</td>
<td>618-382-4153</td>
<td><a href="mailto:keith@botsch.com">keith@botsch.com</a></td>
</tr>
<tr>
<td>CARDILLO, JIM, CPA</td>
<td>555 Pleasantville Rd, Suite230N, Briarcliffe Manor, NY 10510</td>
<td>914-747-5004</td>
<td>914-747-5006</td>
<td><a href="mailto:jimccard@cs.com">jimccard@cs.com</a></td>
</tr>
<tr>
<td>FECCI, ERIC, CPA</td>
<td>272 Route 202, Somers, NY 10589</td>
<td>914-669-4100</td>
<td>914-669-4101</td>
<td><a href="mailto:Eric@RosenbergandFecci.com">Eric@RosenbergandFecci.com</a></td>
</tr>
<tr>
<td>FIGLIOLO, ALFONSO</td>
<td>2946 kent Road East, Wantagh, NY 11793</td>
<td>516-783-9486</td>
<td>516-221-6165</td>
<td><a href="mailto:afigliola@cpasllc.com">afigliola@cpasllc.com</a></td>
</tr>
<tr>
<td>FINE, SHERYL, CPA</td>
<td>66 So. Tyson Avenue, Floral Park, NY 11001</td>
<td>516-328-3800</td>
<td>516-488-4695</td>
<td><a href="mailto:sheryl@wfracpa.com">sheryl@wfracpa.com</a></td>
</tr>
<tr>
<td>GARNER, NORMAN</td>
<td>1909 Central Drive #307, Bedford TX 76021</td>
<td>817-685-5828</td>
<td>817-685-1068</td>
<td><a href="mailto:soundinvesting@sbcglobal.net">soundinvesting@sbcglobal.net</a></td>
</tr>
<tr>
<td>GLADSTONE, ALVIN, CPA</td>
<td>80 Cutter Mill Road, Great Neck, NY 11021</td>
<td>516-466-6657</td>
<td>516-466-8289</td>
<td><a href="mailto:agladstone@cpasllc.com">agladstone@cpasllc.com</a></td>
</tr>
<tr>
<td>GOULD, RON, CPA</td>
<td>920 s. Winton Road, Rochester, NY 14618</td>
<td>585-461-9000</td>
<td>585-461-1075</td>
<td><a href="mailto:gouldcpa@aol.com">gouldcpa@aol.com</a></td>
</tr>
<tr>
<td>GRUBMAN, ROB, CPA</td>
<td>535 Fifth Avenue (21st Floor), New York, NY 10017</td>
<td>212-867-7832</td>
<td>212-867-7838</td>
<td><a href="mailto:mrgrubman@grubmanny.com">mrgrubman@grubmanny.com</a></td>
</tr>
<tr>
<td>KELLY, DAVID, CFP</td>
<td>400 No. Carroll Avenue, Southlake, TX 76092</td>
<td>817-410-3715</td>
<td>817-410-3716</td>
<td><a href="mailto:djk2@ix.netcom.com">djk2@ix.netcom.com</a></td>
</tr>
<tr>
<td>MADONNA, STEVEN, CPA</td>
<td>80 Cutter Mill Road, Great Neck, NY 11021</td>
<td>516-466-6657</td>
<td>516-466-8289</td>
<td><a href="mailto:smadonna@cpasllc.com">smadonna@cpasllc.com</a></td>
</tr>
<tr>
<td>MONTGOMERY, WILKINS, CPA</td>
<td>860 East River Place, Ste 200, Jackson, MS 39202</td>
<td>601-352-2036</td>
<td>601-352-2037</td>
<td><a href="mailto:montymontgomery@montgomerybivins.com">montymontgomery@montgomerybivins.com</a></td>
</tr>
<tr>
<td>RICHMAN, SAM, CPA</td>
<td>66 So. Tyson Avenue, Floral Park, NY 11001</td>
<td>516-328-3800</td>
<td>516-488-4695</td>
<td><a href="mailto:sam@wfracpa.com">sam@wfracpa.com</a></td>
</tr>
<tr>
<td>SCHAEFFER, LARRY, CPA</td>
<td>80 Cutter Mill Road, Great Neck, NY 11021</td>
<td>516-466-6657</td>
<td>516-466-8289</td>
<td><a href="mailto:lschaffer@cpasllc.com">lschaffer@cpasllc.com</a></td>
</tr>
<tr>
<td>SCHREIBER, ELLEN</td>
<td>80 Cutter Mill Road, Great Neck, NY 11021</td>
<td>516-466-6657</td>
<td>516-466-8289</td>
<td><a href="mailto:eschreiber@cpasllc.com">eschreiber@cpasllc.com</a></td>
</tr>
<tr>
<td>SINGER, KEN, CPA</td>
<td>450 Seventh Avenue, New York, NY 10001</td>
<td>212-760-8200</td>
<td>212-760-8823</td>
<td><a href="mailto:singerasettmg@aol.com">singerasettmg@aol.com</a></td>
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<tr>
<td>WAGNER, STEPHEN, CPA</td>
<td>66 So. Tyson Avenue, Floral Park, NY 11001</td>
<td>516-328-3800</td>
<td>516-488-4695</td>
<td><a href="mailto:wfrac@wfracpa.com">wfrac@wfracpa.com</a></td>
</tr>
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# Insurance Agents

<table>
<thead>
<tr>
<th>Name</th>
<th>Business Address</th>
<th>Phone #</th>
<th>Fax #</th>
<th>E-Mail</th>
</tr>
</thead>
<tbody>
<tr>
<td>ELENBOGEN, BORIS</td>
<td>80 Cutter Mill Road, Great Neck, NY 11021</td>
<td>516-466-1119</td>
<td>516-466-8289</td>
<td><a href="mailto:elenbogen@nyc.rr.com">elenbogen@nyc.rr.com</a></td>
</tr>
<tr>
<td>LOSQUADRO, THOMAS, CPA</td>
<td>193 Cliff Road West, Wading River, NY 11792</td>
<td>631-929-8400</td>
<td>631-929-8126</td>
<td><a href="mailto:cpa719@optonline.net">cpa719@optonline.net</a></td>
</tr>
<tr>
<td>MARKS, CAROLYN D</td>
<td>23B Pequot Ave., Port Washington, NY 11050</td>
<td>516-767-2085</td>
<td></td>
<td><a href="mailto:cmarks1065@aol.com">cmarks1065@aol.com</a></td>
</tr>
<tr>
<td>ROVNER, ARONLD</td>
<td>80 Cutter Mill Road, Great Neck, NY 11021</td>
<td>516-466-1119</td>
<td>516-466-8289</td>
<td><a href="mailto:arovner@cpasllc.net">arovner@cpasllc.net</a></td>
</tr>
</tbody>
</table>
Vendor Description

- Products or service provided
- Name of the vendor
- Address
- Contact person name
- Contact phone numbers
- Alternate names and numbers for the vendor
- Comments

Product or service provided should be a description of the product or service provided to you. Along with “Comments”, this helps to indicate the reason that this vendor should be contacted following the event.

For some vendors, there may not be a specific contact persons name to list. The “Service Representative on Call” may be appropriate response in some cases. In other cases, a title or department, such as “Sales Representatives” or “Service department” may suffice.

Contact phone numbers should include all possible ways to reach the vendor including fax, cellular, pager, after hours numbers if different from the normal number and toll-free numbers in addition to the normal numbers.

Alternate names and numbers should also be listed wherever possible. Alternate names are alternates to the primary contact person’s name, if listed.

Some vendors may not have 24-hour service. If your incident occurred on a Sunday afternoon, you might need to contact the vendor at that time. Discuss your concerns with the vendor representatives to determine how to contact them during off-hours. After reassuring him or her that the information will have limited distribution ask for home telephone numbers if cellular or pager numbers are not sufficient.

Comments can be used for any information significant to this vendor, such as the reason this vendor should be contacted following an incident, instructions the vendor would need or any appropriate notes.
**CRITICAL VENDORS**

<table>
<thead>
<tr>
<th>Vendor Name: Manning &amp; Napier</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Street Address: 1100 Chase Square</td>
<td></td>
</tr>
<tr>
<td>City/State/Zip: Rochester, NY 14604</td>
<td>Floor:</td>
</tr>
<tr>
<td>Contact Person: Karen Brown</td>
<td>Phone: 800-837-8400</td>
</tr>
<tr>
<td>Alternate Contact: Justin Goldman</td>
<td>24hr: 5AM</td>
</tr>
<tr>
<td>Fax: 716-585-325-9085</td>
<td>other: 301-318-8171</td>
</tr>
<tr>
<td>Comments:</td>
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</table>

<table>
<thead>
<tr>
<th>Vendor Name: SEI</th>
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</tr>
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<tbody>
<tr>
<td>Street Address: One Freedom Valley Dr.</td>
<td></td>
</tr>
<tr>
<td>City/State/Zip: Oaks, PA 19456</td>
<td>Floor:</td>
</tr>
<tr>
<td>Contact Person: Att: IAG Dept.</td>
<td>Phone: 800-734-1003</td>
</tr>
<tr>
<td>Alternate Contact: North East Team</td>
<td>24hr:</td>
</tr>
<tr>
<td>Fax:</td>
<td>other:</td>
</tr>
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<td>Comments:</td>
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<table>
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<tr>
<th>Vendor Name: Schwab Institutional</th>
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<tbody>
<tr>
<td>Street Address: 1958 Summit Park Dr., Ste. 500</td>
<td></td>
</tr>
<tr>
<td>City/State/Zip: Orlando, FL 32810-5938</td>
<td>Floor:</td>
</tr>
<tr>
<td>Contact Person: National Service Team</td>
<td>Phone: 24hr:</td>
</tr>
<tr>
<td>Alternate Contact:</td>
<td>Fax:</td>
</tr>
<tr>
<td>Comments:</td>
<td>other:</td>
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</tbody>
</table>

*List only vendors you would be responsible for contacting.*
Key Customers Description

- Products or service you provide to them
- Customers name
- Address
- Contact persons name
- Contact phone numbers
- Alternate names and numbers for the customer
- Comments

List only Key Customers, those who would need and expect personal notification from you. Include those customers who would be offended or take their business elsewhere if they were not contacted. Being pro-active in contacting important customers can go a long way in mitigating losses. You’re Sales and Marketing Departments and others who could help in assuring the outside world that you have things under control should be listed here.

Specific information needed for key Customers is the same as for Vendors.

Other Business Partners or Support Providers

When an incident occurs, you may need to contact some organizations that do not fall into one of the earlier categories. You should create a list of any of those additional entities too. Some of those entities include:

- Emergency response agencies such as police, fire, utility companies, and the American Red Cross (if your community uses the 911 system that should be documented).
- Business Partners (internal and external) that are neither Vendors nor Customers. These could include internal business units who rely on your business unit for information, your management, and internal business units that would support your recovery. Examples include corporate insurance, internal security, facilities, public relations and human resources.
The information needed to contact these entities is the same as for Vendors or Key Customers.

**KEY CUSTOMER**

<table>
<thead>
<tr>
<th>Vendor Name</th>
<th>Street Address</th>
<th>City/State/Zip</th>
<th>Floor</th>
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</thead>
<tbody>
<tr>
<td>D.W. Alliance</td>
<td>1805 N. Carson Street</td>
<td>Carson City, NV 89701</td>
<td>#355</td>
</tr>
<tr>
<td><strong>Contact Person:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Phone:</strong> 510-903-0644</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>24hr:</strong> 928-396-0538</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Fax:</strong> 928-396-0538</td>
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<tr>
<td><strong>Alternate Contact:</strong></td>
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<td></td>
<td><strong>Phone:</strong> 510-903-0644</td>
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<td></td>
<td><strong>Fax:</strong> 928-396-0538</td>
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<tr>
<td><strong>Comments:</strong></td>
<td>Website is <a href="http://www.dwalliance.com">www.dwalliance.com</a></td>
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</table>

<table>
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<tr>
<th>Vendor Name</th>
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<th>City/State/Zip</th>
<th>Floor</th>
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<tbody>
<tr>
<td>L &amp; S Consulting Group</td>
<td>48 S. Service Road</td>
<td>Melville, NY 11747</td>
<td>#100</td>
</tr>
<tr>
<td><strong>Contact Person:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Steve Solano</td>
<td>Phone: 516-286-6888</td>
<td></td>
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<td><strong>Alternate Contact:</strong></td>
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<td></td>
<td>Phone: 516-286-6888</td>
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<td><strong>24hr:</strong> 928-396-0538</td>
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**Vendor Name:**

**Street Address:**

**City/State/Zip:**

**Floor:**

**Contact Person:**

**Alternate Contact:**

**Comments:**

*List only those customers you would be responsible for contacting.*