

**10.01 Trade Allocation**

---

The Firm must utilize an established formula for allocating securities, including IPOs and Private Placements, and/or recommendations among clients. The formula must provide a fair and equitable basis for allocations and be consistently applied to all clients. Prior to the allocation of securities by the Adviser, the Adviser will determine if a Client's investment objectives and suitability requirements qualify the Client for participation in purchasing a specific security, IPO or Private Placement. If the Client qualifies for participation in the purchase of a specific security, IPO or Private Placement the Adviser will allocate a certain percentage of the total allocation to each qualified Client based upon the following formula:

**Allocation Formula**

The formula is based upon dividing the total shares allocated to the Adviser by the total number of qualified Client's and their assets under management. For example, if the total allocation to the Adviser is 1,000,000 shares and the Adviser has ten (10) Clients that qualify for a percentage of the allocation and each Client has a total of \$1,000,000 under management with the Adviser, each Client will receive an allocation of 100,000 shares.

**10.02 Exclusion of the Firm from the Definition of Investment Company**

---

In order for the Firm to meet the definition of an "investment adviser" and not be classified as an "investment company" in accordance with *SEC Rule 3a-4 of the Investment Company Act of 1940*, the following requirements must be strictly complied with:

- Each client account must be managed on the basis of that client's individual financial situation, investment objectives, and instructions;
- The Firm must obtain information from each client that is necessary to manage the client's account individually;
- The designated sponsor (*as that term is used in Advisers Act Rule 204-3(f)*) and the portfolio manager (*if applicable*) must be reasonably available to consult with clients;
- Each client must have the ability to impose reasonable restrictions on the management of their account;
- Each client must be provided with a quarterly statement containing a description of all activity in the client's account;
- Each client must retain the indicia of ownership of all securities and funds in the account;
- The Firm must establish and effect written procedures that are reasonably designed to ensure that each of the conditions specified herein are met;
- If the Firm designates a third-party to perform certain obligations under the rule, the Firm must obtain from that third-party a written agreement to perform those obligations;
- The Firm must maintain and preserve the policies, procedures, agreements and other documents relating to its investment advisory operations; and,
- The Firm must furnish to the SEC, upon demand, copies of all specified documents.

**10.03 Block Trading**

---

Block trading is permitted where the following conditions are met:

- All clients must receive equal treatment;
- Written disclosure must be made to clients of the Firm's aggregation policies;
- The aggregation policy must include partial fills;
- Exceptions to the aggregation policies must be listed;
- Record-keeping must reflect aggregation;
- Client funds cannot be held any longer than is necessary to settle a transaction; and,
- The Firm may not receive any additional compensation.

#### **Implementation Strategy**

The Firm may aggregate trades and execute block trades. Individual investment advice and treatment will be accorded to each advisory client consistent with client's investment objectives. Our policies for the aggregation of transactions is fully disclosed in the Form ADV.

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 the order

In accordance with SEC No-Action letters, all clients would receive the same commission rate, which should reduce slightly the costs of execution. However some broker/dealers apply an average per share commission that may result in some clients getting lower commission rates but other clients getting higher commission rates than if the trades had been placed individually. In these cases, fair treatment to the client may mean that commissions will be applied on the same basis as if the trade had been entered on an individual basis.

The Firm will not aggregate transactions unless we believe that aggregation is consistent with our duty to seek best execution (which includes the duty to seek best price) for clients.

Before entering an aggregated order, AIC will prepare a written statement (the "Allocation Statement") specifying the participating client accounts and how we intend to allocate the order among the clients.

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, subject to rounding for odd lots, round lot holdings that would be deemed too small for an account ("de minimis allocations"), and other objective criteria. When the total final execution amount of a trade is materially less than an amount of the requested order, certain accounts may be removed entirely from the list of participants and the amounts of the allocation can be adjusted to avoid inefficient results. Accounts that do not receive an allocation with respect to a particular security will be considered first when the next partial fill occurs.

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 the different allocation is explained in writing and is approved in writing by the designated supervisor.

The Firm'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.

Funds and securities of clients whose orders are aggregated will be deposited with

one or more banks, custodians, or broker/dealers, and neither the clients' 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 as soon as practicable following settlement.

AIC will receive no additional compensation or remuneration of any kind as a result of the aggregation.

## **10.04** Review of Customer Transactions

---

The designated supervisor should review all transactions with advisory clients that involve either a principal or an agency cross transaction, to ensure that such transactions are in the best interests of the clients and that the Firm has made appropriate disclosure to the clients on Part 2A/B of the Form ADV. Principal or agency cross transactions should be permitted only if the Firm:

- makes written disclosure to the client of the capacity in which it is acting; and,
- obtains the client's written consent to the transaction.

## **10.05** Principal Transactions

---

### **Definition**

A principal transaction occurs when the Firm buys or sells securities with an advisory client.

### **Timing of Disclosure**

The disclosure and consent requirements for principal transactions must be satisfied in conjunction with, and prior to, each principal transaction (Use of electronic media is permitted). A blanket consent agreement signed at the beginning of an advisory relationship will not be sufficient to satisfy these requirements.

### **Disclosure Information**

The following information must be disclosed to advisory clients:

- The purchase price for any security to be sold to an advisory client; and,
- The best price that the security is available from another source, if more favorable.

## **10.06** Agency Cross Transactions

---

### **Requirements**

An agency cross transaction occurs when the Firm executes a trade with an advisory client on one side of the transaction and a non-advisory client on the other. An agency cross transaction may result in a better price and/or lower transaction costs for the advisory client. Agency cross transactions are permitted if:

- the client has granted prior written authority to the Firm to engage in agency cross transactions;

- the Firm has disclosed to the client in writing its capacity in the transaction and any conflicts of interest;
- the transaction is confirmed in writing;
- the Firm provides the client with an annual summary of agency cross transactions; and,
- all client statements disclose that the client may provide written notice at any time to terminate the agency cross transaction authority.

### Confirmations

In accordance with *SEC Advisers Act Rule 206(3)-2*, All agency cross transactions must be confirmed to the client in writing, at or before the completion of the transaction. Confirmations must include the following information:

- The date of the transaction;
- The source and amount of the Firm's compensation;
- The nature of the transaction; and,
- An offer to supply the time of the transaction, if requested.

### Annual Summary

Clients are required to be provided with an annual summary of their agency cross transactions. This summary must include:

- the description of all agency cross transactions involving the client;
- the total number of agency cross transactions involving the client;
- the total amount of the Firm's compensation relating to such transactions; and,
- a notification that the client may revoke their agency cross transaction authorization at any time.

## 10.07 Soft Dollar Arrangements

---

The Firm currently does not have any soft dollar arrangements. If the Firm receives soft dollars in the future, such practices will be disclosed in our Form ADV.

## 10.08 Error Corrections

---

Errors created in an advisory account must be corrected so as not to harm any client. The goal of error correction is to make the client "whole," regardless of the cost to the Firm. If the Firm reallocates or corrects an error from one client's account to another, the Firm must absorb any loss from the error. Soft dollar arrangements cannot be used to correct errors made by the Firm when placing a trade for a client's account.



### Implementation Strategy

Any person discovering an error shall immediately notify their designated supervisor.

Error corrections should be made as soon as possible after the error is discovered. Often this means no later than the next business day. Sometimes an error correction needs to take place after an investigation to determine whether the client, the advisory firm, the broker/dealer, or the custodian made the error. Error correction may need to be delayed until after the Firm consults with the client. A lengthy investigation may require that the correction be made prior to determining who made the error. The Firm will use best efforts

to resolve errors in a timely manner.

The Firm will maintain a file documenting the correction of all trading errors.

## 10.09 Best Execution

### Duty

The Firm must always seek to obtain best execution of transactions for client accounts. To fulfill this duty, the Firm must 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. The term "Best execution" is determined on a trade-by-trade basis, and should result in the best qualitative execution, not necessarily the lowest possible commission cost. When determining the standard of best execution, the Firm will review *SEC Release 23170*.

### Review

When exercising brokerage discretion, the Firm will periodically review trade reports to evaluate price and commissions and systematically evaluate the performance of the broker-dealers it selects to handle client transactions. In such review the Firm will consider the "full range and quality of a broker's services in placing brokerage". These factors, to name a few, are execution capability, the value of research provided, commission rate, financial responsibility, and responsiveness to the Firm and effectiveness in clearing and settling trades. ►►

### Implementation Strategy

On an annual basis, the Firm will conduct a best execution review which shall determine the execution standards for client transactions. In the review process the Firm will consider the full range and quality of a broker's services in placing brokerage transactions. Some of these factor include execution capability, the value of research provided, commission rate, financial responsibility, and responsiveness to the Firm and effectiveness in clearing and settling trades. A report of the best execution review will be retained at the Firm for future review.

The best execution review for the Firm's clearing firm will performed periodically based on execution quality reports and other information received.

## 10.10 Agency and Principal Transactions with Clients

### Temporary Rule Regarding Principal Trades With Certain Advisory Clients

In accordance with Section 206 of the Investment Advisers Act of 1940 ( the "Investment Advisers Act") and SEC Rule 206(3), The Firm will not directly, or through any affiliate (a) as principal buy any security from or sell any security to a client account or (b) as broker for any person other than the client effect any transaction in a client account prior to the completion ("settlement") of the transaction without making a full disclosure to the client of the capacity in which it is acting and obtaining the consent of the client. Authorization to undertake these transactions should be included in a written contract with the client which is revocable by the client. As a minimum, the disclosure shall include (i) the capacity in which the principal or broker is acting, (ii) the cost of any security proposed to be sold to the account or proposed resale price of any security to be bought from the account, (iii) the best price at which the transaction could be effected for the account elsewhere if more advantageous for the account and (iv) a genuine

opportunity for the client to consent. The confirmation on each transaction should note whether it was an "agency" or "Principal" transaction. The client should receive annually a summary of all such transactions.

The SEC has provided some relief from these provisions. It appeared that many broker-dealers routinely and actively engaged in principal trades with their fee-based customers. Broker-dealer – advisors servicing advisory accounts would run afoul of IA Section 206(3) requiring written consent of the customer prior to each principal trade. In SEC Release IA 2653, the SEC adopted Rule 206(3)-3T allowing limited principal trades in "non-discretionary" accounts on a temporary basis through December 31, 2009. The SEC evaluated at that point whether to continue the Rule permanently and extended it to December 31, 2010.

Effective December 31, 2010 the SEC in release IA - 3118 again extended the expiration date of the temporary rule to December 31, 2012, again extended the expiration date for 17 CFR 275.206(3)-3T to December 31, 2014, pending further study of the "fiduciary duty" aspects of principal trading. The SEC will no doubt continue to evaluate individual firm requests for relief from Section 206(3), making decisions based on whether they are "necessary or appropriate in the public interest and consistent with the protection of investors."

Rule 206(3)-3T currently provides that for broker-dealers dually registered as advisers and exclusively for their non-discretionary advisory accounts subject to the Exchange Act, non-issuer principal trades may be conducted in those customer accounts by observing the following procedures:

1. The broker must provide a written prospective disclosure to the client regarding conflicts arising from the principal trades, including how the broker may engage in the trades, the nature of the conflict and how the conflicts are to be resolved.
2. Obtaining a written consent in advance from the client to enter into the trades based on the disclosure and prominently stating that it is revocable.
3. Obtaining advance written or oral consent from the client for each trade.
4. Sending a confirmation to the client disclosing the capacity on which the broker has acted as principal and that the client has consented.
5. Delivering to the client an annual report itemizing the principal transactions, their date and price.