Contracts and Disclosures 5.00

Introduction

This section sets forth the Firm's procedures for preparing client contracts, maintaining and delivering the required disclosure document, and describes what constitutes custody of client assets under the provisions of the *Advisers Act of 1940.*

5.01 Investment Advisory Agreements and Contracts

General Requirements

All customer contracts and/or investment advisory agreements must meet, at a minimum, the following requirements:

- Contracts must not be assignable without written client consent;
- No contract provision or hedge clause may be used to waive the Firm's compliance with the Advisers Act or other applicable regulations;
- Contracts may not provide the Firm with compensation based upon capital appreciation except under certain limited circumstances;
- Contracts must include a signed acknowledgment by the client of receipt of all disclosure documents; and,
- All contracts must be in writing and signed by both the client and an authorized representative of the Firm.

Required Disclosures

All contracts must include certain disclosures regarding the following information:

- The Firm's fees, including:
  - the level of fees and how they are calculated;
  - when the fees will be paid;
  - how the fees will be calculated for partial periods;
  - whether the client will be billed for fees or whether the fees will be deducted from the account; and,
    if performance fees are involved, how such fees are structured.
- The Firm’s procedures for protecting the confidentially of client information;
- A description of the type and frequency of reports to be provided to clients;
- The addresses for sending notifications;
- The procedures and time required to terminate the contract;
- The procedures for fee settlement in the event of termination of the contract; and,
- The term of the contract and any renewal requirements, if applicable.

Other Disclosures

Where applicable, the following additional disclosures will be provided in investment advisory agreements and/or the Firm’s disclosure document:

- The degree to which the Firm exercises discretionary control over client assets;
- The Firm's use of affiliated broker-dealers and any perceived conflicts of interest
- Limitations the Firm may place on its services, such as only offering investment advice and money management services);
- The existence of any investment guidelines or restrictions on the account;
- The responsibility of proxy voting and how such voting is handled;
- How investment opportunities are allocated between clients;
- Whether securities orders will be bundled with those of other clients;
- Whether the Firm will buy, sell, or hold the same securities that are recommended to clients and the Firm's procedures for avoiding conflicts of interest;
- A statement that the Firm's services are not exclusive. ►►

Implementation Strategy

The designated supervisor of the Firm will be responsible for monitoring the Firm's investment advisory agreements and/or client contracts to ensure all relevant information and disclosures are accurately reflected in each document.

Advisory Fees and Account Valuation

Fees for services will be by agreement between the Firm, through its Affiliates, and the client. Fees are negotiable and vary in part depending upon which Affiliate is engaged to provide services. Fees may be based on hourly rates, a percentage of assets under management (asset-based or asset management fees), or fixed fees.

Asset Management Fee Structure

Fees are computed as a percentage of assets under management on either a tiered schedule or using a fixed annual percentage rate. Fees are billed in arrears and are based on asset values as of the last business day of the billing period, i.e., calendar quarter-end, month-end, or other period as agreed upon by the client. Fees will be assessed pro-rata for:

- New Accounts - The first period billing will be pro-rated for the partial period.
- Cash Flow – Where applicable, additions and withdrawals of $1,000 and above will be pro-rated for the partial period. (Additions or withdrawals of less than $1000 will be ignored.)

the Firm's maximum fee schedule expressed as an annual percentage is as follows:

Tiered Fee Schedule

Portfolio Size	Annual %
First $500,000	2.00%
$500,001 to $1,000,000	1.50%
$1,000,001 and above	1.00%

Fixed Percentage Fee

1.5% Annual Fee

In lieu of the tiered schedule or the fixed percentage fee, a fixed annual fee payable at agreed-upon intervals throughout the year may be charged for asset management services and/or a combination of asset management and other advisory services. The amount of the annual fixed fee will be negotiated and will be based on factors such as the scope of services provided, account values, etc. Fixed fees will be billed in arrears and may be assessed on a quarterly, monthly or other period as agreed upon by the client.

Asset management fees will begin to accrue when the account is funded. Asset management fees are for investment advisory services only and do not include any brokerage and transaction fees or any other professional services which may be required by the client to implement the recommendations made by the Firm. Upon termination by either party, the effective date of termination shall be used as the concluding date for valuation of the Account. The final charge for asset management services covers the period from the beginning of the then current billing period to the termination date, and Client agrees to pay any fee, prorated to the termination date.

In computing the market value of securities held in client accounts for asset management fees, the securities prices will be based on valuations which may be provided by the custodian of the account and/or by Morningstar, Inc. These valuations will be relied upon by the Firm. Valuations are generally based on the closing price on the exchange or other market where the security is traded or the last published redemption price provided by a mutual fund or insurance company. Valuations are not a guarantee of the market value of the assets in the account. Clients will receive quarterly (or monthly if available) statements from the custodian valuing the investment positions of the account. For fee calculation purposes, the Firm may use the portfolio value from our internal portfolio management system, which has been reconciled with custodial information. Values on statements that clients receive from account custodians may differ from the values on the Firm billing statements and/or other reports due to the timing of dividend postings and/or price rounding differences. In some instances, security prices obtained from Morningstar and used by the Firm may differ from those reflected by the custodian due to the methodology used to obtain the value. Thinly traded securities that do not trade daily and/or securities that are not traded on a major exchange (e.g., pink sheet traded) are the most common instances where price discrepancies may occur. Accrued interest postings and unsettled transactions may also affect statement balances.

Valuations for direct participation programs and other illiquid investments that have no active market from which a market value can be readily derived will be based on the estimated value appearing on the account statement provided by the custodian, provided that the Firm is satisfied that the custodian has estimated the value in accordance with NASD Rule 2340. That rule, which has been approved by the SEC, requires that the value be based on data not more than 18 months old obtained from the annual report of the issuer, an independent valuation service or other appropriate source. the Firm will confirm with the custodian that it is subject to Rule 2340. In some instances, units or shares in direct participation programs trade on relatively inactive secondary markets. The prices for such units will generally be lower on these secondary markets than the estimated values used by the custodian. In other instances, there may be no secondary market whatsoever. Because valuations of these illiquid investments will be based on the non-market estimates supplied by the custodian that may be up to 18 months old, and because these valuations will often be higher than what the interests could be sold for, the fees paid to the Firm will often be higher than they otherwise would be if the assets were valued at current fair market value like other assets in the account. This potentially could create a conflict of interest in situations in which the Firm might consider that it could obtain more fees recommending illiquid investment than it could recommending liquid investments.

With respect to direct participation program investments not held by the custodian, the product will be valued at cost until the sponsor or manager has provided a different opinion of value at which time that valuation will be used unless, in the opinion of the Firm, the valuation is likely to be materially inaccurate based on the information available to it. A different valuation metric may be negotiated in a particular case with the consent of the Firm and the client.

Fees For Other Advisory Services (Investment Plans / Planning Services / 401(k) Plan Investment Selection & Monitoring)

Hourly consultation fees and/or fixed fees may be charged for the construction of investment plans, as well as other planning services. Hourly consultation fees are negotiable but will not exceed $350 per hour. Fixed fees will be agreed upon in advance by the Affiliate and the client. A retainer, not to exceed 50% of estimated charges, may be required for investment planning advisory services. The balance is due upon delivery of the plan/services. Fees for investment planning services will not be collected for services to be performed more than six months in advance.

Fees for 401(k) plan services are computed as a percentage of plan assets using a fixed annual percentage rate. Fees are billed in arrears and are based on asset values as of the last business day of the billing period, i.e., calendar quarter-end, month-end, or other period as agreed upon by the client. Fees for new plans will be assessed pro-rata for the first period billing to reflect the partial period. Cash flow will not be pro-rated. the Firm's maximum fee schedule for 401(k) plan advisory services expressed as an annual percentage is 1%.

For other advisory services, upon termination by either party, the Firm agrees to refund any prepaid fee, prorated to the termination date (where applicable).

All advisory fees may be negotiated by the Affiliate on a case-by-case basis.

In negotiating fees, the scope of the services offered and the comparable fees for the geographic area will be considered. In no case will fees exceed the schedules and/or amounts described above.

At times, the Firm and its Affiliates may waive fees for commissions received; however, we may provide both commission and fee services.

Payments of fees may be paid direct by the client or payment of fees may be made by the custodian holding the client's funds and securities. The following criteria will be met when payment is made by the custodian: (1) the client provides written authorization permitting the fees to be paid directly from the client's account held by the independent custodian, (2) the Firm sends to the client a bill showing the amount of the fee, the value of the client's assets on which the fee was based, and the specific manner in which the fee was calculated, (3) the Firm 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, (4) the Firm sends a bill to the custodian indicating the amount of the fee to be paid by the custodian, and (5) the custodian agrees to send to the client a statement, at least quarterly, indicating all amounts disbursed from the account including the amount of advisory fees paid directly to the Firm.

In addition to fees paid for advisory services with respect to clients' investments in mutual funds, clients may pay additional fees on certain mutual fund investments because certain mutual funds also pay advisory and/or management fees to an advisor.

All billing functions are performed by the Firm's Home Office. Calculation of advisory fees is administered by Home Office personnel. All invoices, fee requests, etc., are initiated from the Home Office. Exceptions may be granted in certain instances if specific approval is obtained in advance from the designated principal. In these instances, however, fees must still be paid to the Firm and cannot be paid directly to the Affiliate.

The Firm uses Morningstar Office computer software that we believe is reliable to calculate our advisory fees. Periodically we will do a manual calculation spot check to test the software. These spot checks will be documented.

Performance Presentation Standards

The Firm will not claim compliance with CFA Institute performance standards unless meeting the criteria under Global Investment Performance Standards ("GIPS") as in effect as of January 1, 2006.

GIPS provides for a single global standard of investment performance reporting and imposes a mandatory calculation methodology. After the new effective date, firms may no longer rely on compliance with the old standards.

The Firm does not claim compliance with CFA Institute performance standards.

Solicitor Fees

In accordance with the new combined marketing Rule 206(4)-1 ("Marketing Rule") (Rule 206(4)-3 was rescinded and merged some of its components with the combined Marketing Rule), the Firm may, from time to time, pay referral fees to finders or solicitors for obtaining new advisory clients. The Designated Supervisor must review all solicitor fee arrangements to ensure that they comply with the requirements set forth herein.

Such arrangements must be in the form of a written agreement and the solicitor must not be subject to a statutory disqualification.

The required client disclosure depends on the type of solicitation:

Impersonal Services Only

Includes investment advice not intended to meet the investment objectives or needs of specific individuals or accounts. No specific disclosure is required.

Affiliated Solicitor

If the Firm is using an affiliated solicitor who is offering personalized advisory services, the nature of the relationship must be disclosed, however, no disclosure of the specific terms of the agreement is required;

Unaffiliated Solicitor

If the Firm is using an unaffiliated solicitor, full disclosure of the relationship must be made including the amount of compensation the solicitor will be paid. In addition, the client must sign a written acknowledgment showing that the solicitor's disclosure was received. ►►

Implementation Strategy

The Firm may pay referral fees or otherwise compensate finders or solicitors for obtaining new advisory clients. In the event that the Firm chooses to engage in the use of solicitors or finders, the designated supervisor must review all solicitor fee arrangements to ensure that they comply with the requirements under the new combined marketing Rule 206(4)-1 (“Marketing Rule”) as stated in Section 7.00. See Section 7.00 for further details.

The Firm and its affiliates may act as solicitors to other investment advisors, and will comply with the solicitors rule to include:

- Only recommending to a customer that the customer engage the services of another investment advisor, if that outside investment advisor is licensed under applicable federal and state licensing requirements.
- Executing a Solicitors Agreement with the outside investment advisor/money manager.
- Delivering to the client at the time of the solicitation; the outside investment advisor's Part 2A of Form ADV (or brochure supplement), the Compensation Disclosure Document, and the Client Acknowledgement. The Client Acknowledgement will be returned to the outside investment advisor, and we shall maintain a copy.
- Any partner, officer, director, or employee of the outside investment advisor, who is compensated as a solicitor, will disclose this status, and/or any affiliation with the outside advisor, to the client at the time of the solicitation. ►►

Implementation Strategy

Pursuant to Rule 206(4)-3, a separate written disclosure document prepared by the third party manager will be furnished by the Affiliate to the client containing the following information:
1. The name of the solicitor;
2. The name of the investment adviser;
3. The nature of the relationship, including any affiliation, between the solicitor and the investment adviser;
4. A statement that the solicitor will be compensated for his solicitation services by the investment adviser;
5. The terms of such compensation arrangement, including a description of the compensation paid or to be paid to the solicitor; and
6. The amount, if any, for the cost of obtaining his account the client will be charged in addition to the advisory fee, and the differential, if any, among clients with respect to the amount or level of advisory fees charged by the investment adviser if such differential is attributable to the existence of any arrangement pursuant to which the investment adviser has agreed to compensate the solicitor for soliciting clients for, or referring clients to, the investment adviser.

In the event that the Firm chooses to engage in the use of solicitors or finders, the designated supervisor must review all solicitor fee arrangements to ensure that they comply with the requirements set forth herein.

5.02 Disclosure Documents

Brochure Rule

Rule 204-3 of the Advisers Act requires the Firm to provide certain written disclosures to prospective and existing clients at specified times. This requirement is commonly known as the "Brochure Rule." Providing advisory clients with this brochure will ensure that they receive certain basic information about the Firm and its business practices.

Formats

The brochure may be delivered in one of two formats:

- A copy of the Firm's entire Part2A/B of Form ADV; or,
- A written document containing, at a minimum, the information required by Part2A/B of the Form ADV.

Client Copy

All clients must be furnished either a copy of Part2A/B of Form ADV or a written document containing at least the information required in Part2A/B.

Initial Delivery

- Investment advisers must give a firm brochure to each client before or at the time an advisory agreement is entered into with that client. See SEC rule 204-3(b) and similar state rules.

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Annual Delivery

- Each year investment advisers must (i) deliver, within 120 days of the end of the fiscal year, to each client a free updated brochure that either includes a summary of material changes or is accompanied by a summary of material changes, or (ii) deliver to each client a summary of material changes that includes an offer to provide a copy of the updated brochure and information on how a client may obtain the brochure. See SEC rule 204-3(b) and similar state rules.

- Investment advisers do not have to deliver an interim amendment to clients unless the amendment includes information in response to Item 9 of Part 2A (disciplinary information). An interim amendment can be in the form of a document describing the material facts relating to the amended disciplinary event. See SEC rule 204-3(b) and similar state rule.

5.03 Disciplinary Disclosure

In accordance with *Rules 206(4) and 4(a)(2)*, all material facts must be disclosed which relate to legal or disciplinary events that are material to the client's evaluation of the Firm's integrity or ability to meet its contractual obligations, including:

Court Proceedings *(Criminal and Civil)*

- In the event that the Firm has been permanently or temporarily enjoined from engaging in investment-related activities;

- If applicable, that the Firm or any member of its senior management has been convicted of or has pleaded guilty or nolo contendere to a felony or misdemeanor involving: an investment related statute; fraud; making false statements; wrongful taking of property; bribery; forgery; counterfeiting; or, extortion; and,
- Disclosure should be made for a period of ten (10) years from the time of the event.

Regulatory Proceedings

If applicable, that the Firm or an associated person of the Firm:

- Caused an investment related business to lose its authorization to conduct business or was found to have violated a statute and was subject to an action denying, suspending, or revoking its ability to do business; or,
- Received a fine in excess of $2,500 in a self-regulatory proceeding.

5.04 Financial Disclosures

In accordance with *Rules 206(4) - (4(a)(1),* the Firm must disclose any facts or circumstances which might reasonably impact on the Firm's ability to meet its contractual commitments to clients, where the Firm:

- Has discretionary authority over or custody of client assets; or,
- Requires pre-payment of fees of more than $500, six months or more in advance.

Examples

Examples of information that must be disclosed include:

- A likelihood of bankruptcy or insolvency; or,
- An event that would occupy the Firm's time so that its ability to manage client assets would be impaired.

5.05 Wrap Fee Program Disclosures

In accordance with *Rule 204-3,* Part 2A Appendix 1 of Form ADV outlines information required to be disclosed in narrative format in a separate brochure.

Simple Language

The language used in preparing the brochure should be clear, concise and readily understandable by a layperson. Use of technical language should be avoided.

Reporting

Schedule H and the brochure must be filed with the SEC and all other applicable jurisdictions.

Delivery

Where the Firm is the program sponsor, the wrap-fee brochure must be provided to clients instead of the Form ADV Part 2A ("brochure"). Initial and annual delivery requirements are the same, as those required for Part 2 of Form ADV.

Brochure Disclosures

Disclosures required to be made in the wrap-fee program brochure, include, but are not limited to:

- Fees and Compensation;
- A description of how the program managers are selected and reviewed;
- Certain information about portfolio manager performance; and,
- Any restrictions on the ability of clients to contact and consult with portfolio managers.

NOTE: The Firm currently does not sponsor any WRAP programs.

5.06 Custody of Customer Funds and/or Securities

Regulations

In amended Rule 206(4)-2 effective March 12, 2010, the Securities and Exchange Commission adopted amendments to the custody and recordkeeping rules under the Investment Advisers Act of 1940 and related forms. The amendments are designed to provide additional safeguards under the Advisers Act when a registered adviser has custody of client funds or securities by requiring such an adviser, among other things: to undergo an annual surprise examination by an independent public accountant to verify client assets; to have the qualified custodian maintaining client funds and securities send account statements directly to the advisory clients; and unless client assets are maintained by an independent custodian (*i.e.*, a custodian that is not the adviser itself or a related person), to obtain, or receive from a related person, a report of the internal controls relating to the custody of those assets from an independent public accountant that is registered with and subject to regular inspection by the Public Company Accounting Oversight Board. Finally, the amended custody rule and forms will provide the Commission and the public with better information about the custodial practices of registered investment adviser.

Responsibility

Where the Firm maintains possession or custody of client funds or securities, the Designated Supervisor shall ensure compliance with the restrictions and requirements of this section.

Definition of Custody

An adviser shall be deemed to have “custody” when it holds, directly or indirectly, client funds or securities or [has] any authority to obtain possession of them. In an attempt to clarify the definition of custody, the SEC provides three examples of certain circumstances under which advisers have custody of client funds or securities.

Temporary Possession

Advisers that hold client stock certificates or cash, even temporarily, expose its client’s assets to a heightened level of risk associated with the potential for misuse or loss. Therefore, an adviser has custody when it has possession of client funds or securities, even for a brief period. Temporary possession shall also apply to advisers that forward clients’ funds or securities, although advisers may *prepare* certain documents, including stock certificates, for forwarding to a custodian or third-party without having custody.

However, the final amendments exclude an adviser's "inadvertent receipt" of client funds or securities, provided that the adviser returns them to the sender within three (3) business days of receipt. The rule also clarifies that an adviser's possession of a check drawn by the client and made payable to a third party is not considered possession of client funds within the meaning of the custody rule. Moreover, checks made payable to the adviser for payment of advisory fees due to the adviser do not represent "client funds" within the meaning of the custody rule.

Authority to Withdrawal Funds

The definition of custody shall also apply to an adviser that has authority to withdrawal funds or securities for a client's account. Even though the adviser might not have *actual* possession of client assets, having the authority to obtain possession is enough under to the rule to constitute custody. Therefore, custody shall apply to an adviser that maintains (i) authorization to deduct advisory fees or other expenses directly from a client's account; (ii) power of attorney to sign checks on behalf of advisory clients; (iii) authorization to withdraw funds or securities from a client's account or to dispose of client funds or securities for any purpose other than authorized trading.

However, the rule does not apply to an adviser that has authority to issue instructions to broker/dealers or custodians to effect or settle trades on behalf of their advisory clients.

Legal Ownership and Accessibility

An adviser that acts in any capacity that gives it legal ownership of, or access to, client funds or securities, is also deemed to have custody. Some of the more common examples of legal ownership are seen in firms that act as both general partner and investment adviser to a limited partnership (LP), or advisers that act as both managing member and investment adviser of a limited liability company (LLC) or another type of investment vehicle, or as both trustee and investment adviser of a trust. In these examples, the general partner, managing member, and trustee generally have some degree of authority to dispose of funds and securities in the corresponding account.

However, the rule does not apply to advisers that also act as general partners for real estate partnerships unless the partnership is an advisory client of the investment adviser. A similar exception would apply where a supervising person such as portfolio manager engages the advisory firm to advise an estate, conservatorship or personal trust for which the supervised person serves as executor, conservator or trustee solely because the person has been appointed as a result of family or personal relationship with the decedent, beneficiary or grantor (and not a result of employment with the adviser).

Use of Qualified Custodian

The amendments we proposed earlier this year to rule 206(4)-2 were designed to strengthen the existing custodial controls imposed by the rule. Under rule 206(4)-2, advisers, in most cases, must maintain client funds and securities with a "qualified custodian."

Qualified custodians under the rule include the types of financial institutions to which clients and advisers customarily turn for custodial services, including banks, registered broker-

dealers, and registered futures commission merchants. These institutions' custodial activities are subject to regulation and oversight. In addition, advisers must have a reasonable belief that the qualified custodian sends account statements directly to advisory clients. The rule also permits advisers (rather than custodians) to send account statements if the adviser is subject to annual surprise verification of client assets by an independent public accountant.

In the event that the adviser or its related person serves as qualified custodian for client assets, the proposed amendments would require that the adviser undergo an annual surprise examination and obtain, or receive from the related person, an internal control report with respect to custody controls, both of which must be performed or prepared by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board ("PCAOB"). Amendments to Form ADV would require advisers to report current information to us about these custodial arrangements.

Delivery of Account Statements and Notice to Clients

The amended rule requires advisers that maintain custody of customer funds or securities to have a reasonable belief that the qualified custodian holding the assets is providing account statements to those clients on a quarterly basis. Additionally, the qualified custodian must deliver the account statements *directly* to advisory clients as opposed to going *through* the adviser. However, in the event that a client does not receive account statements directly from the qualified custodian, the adviser must continue sending quarterly account statements to that client and to undergo an annual surprise examination by an independent public accountant to verify the funds and securities of that client.

In other circumstances, some advisory clients may not wish to receive custodial reports. In this case, clients can choose to have an independent representative receive account statements on their behalf. An "independent representative" is a person that (i) acts as agent for an advisory client and by law or contract is obligated to act in the best interest of the advisory client; (ii) does not control, is not controlled by, and is not under common control with the adviser; and (iii) does not have, and has not had within the past two years a material business relationship with the adviser.

Rule 206(4)-2 required advisers that have custody, with certain limited exceptions, to maintain client funds or securities with a "qualified custodian," which the adviser must have a reasonable basis for believing sends an account statement, at least quarterly, to each client for which the qualified custodian maintains funds or securities. The requirement is designed so that advisory clients will receive a statement from the qualified custodian that they can compare with any statements (or other information) they receive from their adviser to determine whether account transactions, including deductions to pay advisory fees, are proper.

The SEC adopted an amendment to the rule that eliminates an alternative to the requirement under which an adviser can send quarterly account statements to clients if it undergoes a surprise examination by an independent public accountant at least annually. The SEC believes that direct delivery of account statements by qualified custodians will provide greater assurance of the integrity of account statements received by clients.

The amended rule requires that an adviser's reasonable belief that the qualified custodian sends account statements directly to clients must be formed by the adviser after "due inquiry." Although there is no single method for forming this belief, the SEC provides advisers with the flexibility to determine how best to meet this requirement. For instance, an adviser could form a reasonable belief after "due inquiry" if the qualified custodian provides the adviser with a copy of the account statement that was delivered to the client.

Rule 206(4)-2 requires investment advisers to notify their clients promptly upon opening a custodial account on their behalf and when there are changes to the information required in that notification. The SEC amended the rule to require advisers to include a cautionary legend in the notice urging clients to compare the account statements they receive from the custodian with those they receive from the adviser *only* if the adviser elects to send its own account statements to clients.

Additionally, the SEC amended the rule to require those investment advisers, in any subsequent statements they deliver to clients after the initial notice, to urge clients to compare the adviser's statements with the account statements they receive from the custodian.

Annual Surprise Examination of Client Assets

Under the amended rule, the SEC requires that all advisers with custody obtain a surprise examination (or an audit, if applicable in the case of a pooled investment vehicle) of client assets by an independent public accountant in order to provide "another set of eyes" on client assets, and thus an additional set of protections against their misappropriation. Because advisers with custody often have authority to access, obtain and, potentially, misuse client funds or securities, the SEC believes the additional review provided by an independent public accountant would help identify problems that clients may not and thus would provide deterrence against fraudulent conduct by advisers.

An investment adviser required to obtain a surprise examination must enter into a written agreement with an independent public accountant that provides that the first examination will take place by December 31, 2010 or, for advisers that become subject to the rule after the effective date, within six months of becoming subject to the requirements.

Advisers with Limited Custody Due to Fee Deduction

For advisers that have custody of client assets *solely* because of its authority to deduct advisory fees from client accounts, the SEC believes that the magnitude of the risks of client losses from overcharging advisory fees does not warrant the costs of a obtaining a surprise examination.

Pooled Investment Vehicle Audit

The SEC amended the rule to deem an adviser to a pooled investment vehicle that is subject to an annual financial statement audit by an independent public accountant, and that distributes the audited financial statements prepared in accordance with generally accepted accounting principles to the pool's investors, to have satisfied the annual surprise examination requirement ("annual audit provision"). The SEC is limiting the rule's recognition of such audits as satisfying the surprise verification requirement to those audits performed by an independent public accountant registered with, and subject to regular inspection by, the PCAOB. As a note, under rule 206(4)-2, an adviser to a pooled investment vehicle that distributes to its investors audited financial statements is not required to have a reasonable belief that a qualified custodian delivers account statements to investors.

An investment adviser to a pooled investment vehicle may rely on the annual audit provision if the adviser (or a related person) becomes contractually obligated to obtain an audit of the financial statements of the pooled investment vehicle for fiscal years

beginning on or after January 1, 2010 by an independent public accountant registered with, and subject to regular inspection by, the PCAOB.

Delivery to Related Persons

The SEC adopted a new provision in rule 206(4)-2 that precludes advisers from using layers of pooled investment vehicles to avoid meaningful application of the protections of the Rule. Specifically, the sending of an account statement (paragraph (a)(5)) or distributing audited financial statements (paragraph (b)(4)) will not meet the requirements of the rule if all of the investors in a pooled investment vehicle to which the statements are sent are themselves pooled investment vehicles that are related persons of the adviser.

Investment advisers to pooled investment vehicles may from time to time use special purpose vehicles (SPVs) to facilitate investments in certain securities by one or more pooled investment vehicles that the advisers manage. These SPVs are typically established or controlled by the investment adviser or its related persons who often serve as general partners of limited partnerships (or managing members of limited liability companies, or persons who hold comparable positions for another type of pooled investment vehicle).

To comply with the rule, as amended, the investment adviser could either treat the SPV as a separate client, in which case the adviser will have custody of the SPV's assets or treat the SPV's assets as assets of the pooled investment vehicles of which it has custody indirectly. If the adviser treats the SPV as a separate client, rule 206(4)-2 requires the adviser to comply separately with the custody rule's audited financial statement distribution or account statement and surprise examination requirements (*e.g.*, distribute audited financial statements of the SPV pursuant to the requirements of rule 206(4)-2). Accordingly, advisers should distribute the audited financial statements or account statements of the SPV to the beneficial owners of the pooled investment vehicles.

If, however, the adviser treats the SPV's assets as assets of the pooled investment vehicles of which it has custody indirectly, such assets must be considered within the scope of the pooled investment vehicle's financial statement audit or surprise examination.

Commission Reporting

Under amended rule 206(4)-2, each investment adviser subject to the surprise examination requirement must enter into a written agreement with an independent public accountant to conduct the surprise examination. The agreement must require the accountant, among other things, to notify the Commission within one business day of finding any material discrepancy during the course of the examination, and to submit Form ADV-E to the Commission accompanied by the accountant's certificate within 120 days of the time chosen by the accountant for the surprise examination, stating that the accountant has examined the funds and securities and describing the nature and extent of the examination.

The agreement also must provide that, upon resignation or dismissal, the accountant must file within four business days a statement regarding the termination along with Form ADV-E. Accountants will file Form ADV-E with us electronically, through the Investment Adviser Registration Depository ("IARD").

Privately Offered Securities

Amended rule 206(4)-2 no longer permits the accountant conducting the annual verification of client assets to forego examining certain privately offered securities, as defined in the rule. As a result, advisers that maintain custody of privately offered securities on behalf of clients will be subject to the surprise examination requirement. To mitigate these risks and to provide assurance that privately offered securities are properly safeguarded, the SEC believe that it is appropriate to require an independent third-party to verify client ownership with the issuers of the securities by requiring that these securities be subject to the surprise examination requirement under the amended rule.

Custody by Adviser and Related Person

As amended, rule 206(4)-2 imposes additional requirements when advisory client assets are maintained by the adviser itself or by a related person rather than with an independent qualified custodian. As proposed, the amended rule requires, in addition to the surprise examination discussed above, that when an adviser or its related person serves as a qualified custodian for advisory client funds or securities under the rule, the adviser obtain, or receive from its related person, no less frequently than once each calendar year, a written report, which includes an opinion from an independent public accountant with respect to the adviser's or related person's controls relating to custody of client assets ("internal control report"), such as a Type II SAS 70 report. The amended rule also requires, in these circumstances, that the accountant issuing the internal control report, as well as the accountant performing the surprise examination, be registered with, and subject to regular inspection by, the PCAOB.

An investment adviser also required to obtain or receive an internal control report because it or a related person maintains client assets as a qualified custodian must or receive an internal control report within six months of becoming subject to the requirement.

Related Persons

We are amending rule 206(4)-2, as proposed, to provide that an adviser has custody of any client securities or funds that are directly or indirectly held by a "related person" in connection with advisory services provided by the adviser to its clients.

PCAOB Registration and Inspection

Under the amendments, the surprise examination and internal control report required when the adviser or its related person serves as qualified custodian for client assets may be satisfied only when performed or prepared by an independent public accountant that is registered with, and subject to regular inspection by, the PCAOB.

Custodial Arrangements

The following arrangements may result in the Firm obtaining custody of client assets:

- Direct Debit Billing-- The Clients of the Firm that are directly billed receive statements from their respective qualified custodians that include all the required information.

Fee Debiting Authority

Many Clients have granted the Firm the authority to debit advisory fees directly from the Clients' accounts. Prior to establishing direct fee debiting authority with any new custodian, the designated supervisor is responsible for confirming that the custodian meets the definition of a

Qualified Custodian, and that the custodian will send statements directly to each applicable Client on at least a quarterly basis showing all holdings as of the statement's date and all transactions that took place during the statement period.

Amendments to Form ADV

The SEC adopted several amendments to Part 1A and Schedule D of Form ADV. The amendments require registered advisers to report to us more detailed information about their custody practices in their registration form and to update the information. The information will enhance our ability to identify compliance risks associated with custody of client assets.

Item 7. The SEC adopted the amendments to Item 7 and Section 7.A. of Schedule D that requires each adviser to report *all* related persons who are broker-dealers and to identify which, if any, serve as qualified custodians with respect to the adviser's clients' funds or securities. Additionally, Section 7.A. of Schedule D to require an adviser to report whether it has determined that it has overcome the presumption that it is not operationally independent from a related person broker-dealer qualified custodian, and thus is not required to obtain a surprise examination for the clients' assets maintained at that custodian.

Item 9. The SEC adopted amendments to Item 9 to require each registered adviser to report: (i) whether the adviser or a related person has custody of client assets, and if so, both the total U.S. dollar amount of those assets as well as the number of clients for whose accounts the adviser has custody; (ii) if the adviser acts as an adviser to a pooled investment vehicle, whether (a) the pool is audited, and (b) the qualified custodians send account statements to pool investors; (iii) whether an independent public accountant conducts an annual surprise examination of client assets; and (iv) whether an independent public accountant prepares an internal control report with respect to the adviser or its related person and (v) whether the adviser or related person serves as qualified custodian for the adviser's clients.

Schedule D. In addition, the SEC amended Schedule D to require that advisers (i) identify and provide certain information about the accountants that perform audits or surprise examinations and that prepare internal control reports; and (ii) to identify related persons, such as banks, that serve as qualified custodians with respect to their clients' funds or securities, but are not otherwise reported in Item 7. The SEC also amended Schedule D to require an adviser to report whether it has determined that it has overcome the presumption that it is not operationally independent from a related person qualified custodian, and thus is not required to obtain a surprise examination for the clients' assets maintained at that custodian.

Amendments to Form ADV-E

There are three amendments to the instructions to Form ADV-E. First, the SEC amended the form instructions to require that the form and the accompanying accountant's examination certificate be filed electronically with the Commission through the IARD. The second and third amendments conform Form ADV-E instructions to amended rule 206(4)-(2), which requires that (i) the surprise examination certificate must be filed within 120 days of the time chosen by the accountant for the surprise examination, and (ii) a termination statement be filed by an accountant within four business days of its resignation, dismissal, or removal.

Investment advisers registered with SEC must provide responses to the revised Form ADV in their first annual amendment after January 1, 2011. Until the IARD system is upgraded to

accept Form ADV-E, accountants performing surprise examinations should continue paper filing of Form ADV-E. Investment advisers will be notified as soon as the IARD system can accept filings of Form ADV-E.

Part 1A- Item 9 of Form ADV

Item 9 of Part 1A of Form ADV asks whether an adviser has custody of client funds or securities. As a result of this question, many advisers that deduct their fees directly from client accounts and therefore have custody, have previously answered "no" to Item 9 in reliance on previous SEC issued no-action letters. However, as a result of the amended rule, Item 9 of Part 1A of Form ADV was revised to include new instructions which clarify that advisers that have custody *only* because they deduct fees may answer "no" to Item 9 in compliance with the amended rule. The Firm only has the ability to deduct fees directly from client accounts and only has custody in this capacity.

Part 2A- Item 15 of Form ADV

As part of the old Custody Rule, Item 15 of Part 2A of Form ADV requires an adviser that maintains custody of customer funds or securities to include an audited balance sheet by an independent accountant along with Part 2 of Form ADV. However, as a result of the amended rule, the Form ADV was amended to eliminate the requirement for an adviser to include an audited balance sheet in their disclosure statements sent to clients. ►►

Implementation Strategy

In the event that the Firm maintains custody of customer funds and/or securities in accordance with the amended and final Rule 206(4)-2, the Firm's designated principal will ensure that its designated custodian is properly distributing client statements directly to advisory clients. Additionally, the designated principal will also ensure that the Firm's Form ADV Part 1 & 2A/B is properly completed and amended as and when appropriate.

Standing Letters of Authorization (SLOAs)

On February 21, 2017, the SEC Division of Investment Management issued a no-action letter in response to a letter from the Investment Adviser Association ("IAA") asking for clarification and assurances related to Rule 206(4)-2 ("Custody Rule") under the Advisers Act. In particular, the IAA sought to: (i) confirm that an IA firm "utilizing a standing letter of instruction or other similar asset transfer authorization arrangement established by a client with a qualified custodian ('SLOA')" would not be deemed to have custody; and (ii) that SEC staff would not recommend enforcement action against an RIA firm if it acts pursuant to a SLOA without the advisory firm obtaining a surprise independent verification ("surprise examination") as required by Rule 206(4)-2(a)(4).

The IAA's outlined position was that an SLOA arrangement, where an investment adviser is only acting on a client's instructions to transfer assets to a third party, does not result in an investment adviser having the ability to hold, obtain possession of, or withdraw client funds. However, in their response letter, the SEC disagreed and stated that, "an investment adviser with power to dispose of client funds or securities for any purpose other than authorized trading has access to the client's assets." They went on to say that this includes letters of instruction or other asset transfer authorization arrangements that enable an investment adviser to withdraw client funds or securities from their accounts. The SEC believes that entering into such an arrangement does

constitute custody and the investment adviser is therefore required to comply with the Custody Rule.

SLOAs and the Custody Rule

The Custody Rule is designed to protect client funds or securities from being lost, misused, misappropriated or subject to investment advisers' financial reverses, including insolvency. The Custody Rule provides that it is a fraudulent, deceptive or manipulative act, practice or course of business within the meaning of Section 206(4) of the Advisers Act for an investment adviser that is registered or required to be registered under the Advisers Act to have "custody" of client funds or securities unless they are maintained in accordance with the requirements of the rule. In this regard, where an investment adviser has custody of client funds or securities, it must obtain a surprise examination of client assets by an independent public accountant.

Under the Custody Rule, an investment adviser has "custody" of client funds or securities where it or its related person "holds, directly or indirectly, client funds or securities, or has any authority to obtain possession of them, in connection with advisory services [it] provide[s] to clients…" Moreover, "custody" includes "[a]ny arrangement… under which [an investment adviser is] authorized or permitted to withdraw client funds or securities maintained with a custodian upon [its] instruction to the custodian…"

Even an investment adviser simply following a client's instructions to transfer assets pursuant to the limited authority granted to the investment adviser under a SLOA and the investment adviser's corresponding direction to the qualified custodian may result in an investment adviser "holding" client funds, give an investment adviser "authority to obtain possession" of client funds, or authorize or permit an investment adviser to "withdraw client funds" for any purpose, as contemplated by the Custody Rule.

Therefore, an investment adviser with power to dispose of client funds or securities for any purpose other than authorized trading has access to the client's assets.

The SEC's position is that a letter of instruction or other similar asset transfer authorization arrangement established by a client with a qualified custodian would constitute an arrangement under which an investment adviser is authorized to withdraw client funds or securities maintained with a qualified custodian upon its instruction to the qualified custodian. An investment adviser that enters into such an arrangement with its client would therefore have custody of client assets and would be required to comply with the Custody Rule.

Notwithstanding this view, staff of the Division of Investment Management would not recommend enforcement action to the Commission under Section 206(4) of, and Rule 206(4)-2 under, the Advisers Act against an investment adviser if that adviser does not obtain a surprise examination where it acts pursuant to such an arrangement under the following circumstances:

1. The client provides an instruction to the qualified custodian, in writing, that includes the client's signature, the third party's name, and either the third party's address or the third party's account number at a custodian to which the transfer should be directed.
2. The client authorizes the investment adviser, in writing, either on the qualified custodian's form or separately, to direct transfers to the third party either on a specified schedule or from time to time.
3. The client's qualified custodian performs appropriate verification of the instruction, such as a signature review or other method to verify the client's authorization and provides a transfer of funds notice to the client promptly after each transfer.
4. The client has the ability to terminate or change the instruction to the client's qualified custodian.

5. The investment adviser has no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the client's instruction.
6. The investment adviser maintains records showing that the third party is not a related party of the investment adviser or located at the same address as the investment adviser.
7. The client's qualified custodian sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.

Additionally, starting October 1, 2017, investment advisers will be required to include client assets that are subject to these SLOA arrangements in their response to Item 9 of Form ADV Part 1.

Exceptions

The SEC does not interpret the authority to withdraw assets to include the limited authority to transfer a client's assets between the client's accounts maintained at one or more qualified custodians if the client has authorized the adviser in writing to make such transfers and a copy of that authorization is provided to the qualified custodians, *specifying* the client accounts maintained with qualified custodians.

Note: The term, "specifying" means that the written authorization signed by the client and provided to the sending custodian states with particularity the name and account numbers on sending and receiving accounts (including the ABA routing number(s) or name(s) of the receiving custodian) such that the sending custodian has a record that the client has identified the accounts for which the transfer is being effected as belonging to the client. That authorization does not need to be provided to the receiving custodian. Moreover, an adviser's authority to transfer client assets between the client's accounts at the same qualified custodian or between affiliated qualified custodians that both have access to the sending and receiving account numbers and client account name (e.g., to make first-party journal entries) does not constitute custody and does not require further specification of client accounts in the authorization.

Implementation Strategy

If the Firm uses standing letters of instruction or other similar asset transfer authorization arrangements established by a client with a qualified custodian ("SLOAs"), the Firm will be deemed to have custody under the February 21, 2017, SEC No Action Letter issued to the IAA.

In such cases where the Firm is utilizing SLOAs subject to the custody rule, it will ensure that it meets the following circumstances to avoid the surprise examination requirement under the custody rule:

1. The client provides an instruction to the qualified custodian, in writing, that includes the client's signature, the third party's name, and either the third party's address or the third party's account number at a custodian to which the transfer should be directed.
2. The client authorizes the investment adviser, in writing, either on the qualified custodian's form or separately, to direct transfers to the third party either on a specified schedule or from time to time.
3. The client's qualified custodian performs appropriate verification of the instruction, such as a signature review or other method to verify the client's authorization and provides a transfer of funds notice to the client promptly after each transfer.
4. The client has the ability to terminate or change the instruction to the client's qualified custodian.

5. The investment adviser has no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the client's instruction.
6. The investment adviser maintains records showing that the third party is not a related party of the investment adviser or located at the same address as the investment adviser.
7. The client's qualified custodian sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction

If the Firm can't meet the above conditions, then the Firm will engage with a PCAOB accounting firm to conduct a surprise examination as required.

5.07 Performance Based Fees

Section 205(a)(1) of the Investment Advisers Act generally restricts an investment adviser from entering into, extending, renewing, or performing any investment advisory contract that provides for compensation to the adviser based on a share of capital gains on, or capital appreciation of, the funds of a client. Congress restricted these compensation arrangements (also known as performance compensation or performance fees) in 1940 to protect advisory clients from arrangements it believed might encourage advisers to take undue risks with client funds to increase advisory fees. Congress subsequently authorized the SEC to exempt any advisory contract from the performance fee restrictions if the contract is with persons that the SEC determines do not need the protections of those restrictions.

The SEC adopted rule 205-3 in 1985 to exempt an investment adviser from the restrictions against charging a client performance fees in certain circumstances. The rule, when adopted, allowed an adviser to charge performance fees if the client had at least $500,000 under management with the adviser immediately after entering into the advisory contract ("assets-under-management test") or if the adviser reasonably believed the client had a net worth of more than $1 million at the time the contract was entered into ("net worth test"). The SEC stated that these standards would limit the availability of the exemption to clients who are financially experienced and able to bear the risks of performance fee arrangements.

In 1998, the SEC amended rule 205-3 to change the dollar amounts of the assets-under-management test and net worth test to adjust for the effects of inflation since 1985. The SEC revised the former from $500,000 to $750,000, and the latter from $1 million to $1.5 million.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") amended section 205(e) of the Advisers Act to require that the SEC adjust for inflation the dollar amount thresholds in rules under the section, rounded to the nearest $100,000. Separately, the Dodd-Frank Act also required that the SEC adjust the net worth standard for an "accredited investor" in rules under the Securities Act of 1933 ("Securities Act"), such as Regulation D, to exclude the value of a person's primary residence.

In May 2011, the SEC published a notice of intent to issue an order revising the dollar amount thresholds of the assets-under-management and the net worth tests of rule 205-3 to account for the effects of inflation. In addition, the amendments (i) stated that the SEC would issue an order every five years adjusting for inflation the dollar amount thresholds, (ii) excluded the value of a person's primary residence from the test of whether a person has sufficient net worth to be considered a "qualified client," and (iii) modified certain transition provisions of the rule.

The amendments revise the "qualified client" dollar thresholds of Rule 205-3 to account for the effects of inflation, as required by the Dodd-Frank Act. Rule 205-3 provides an exception to Section 205(a)(1) of the Advisers Act, which generally prohibits SEC-registered investment advisers from charging performance fees. Rule 205-3 allows an investment adviser to charge a performance fee to a "qualified client." Pursuant to the amendments, a "qualified client" is defined as a natural person (i) with at least $1

million in assets under management with the investment adviser immediately after entering into the advisory contract (the “assets under management test”), or (ii) whom the adviser reasonably believes has, prior to entering into the advisory relationship, a net worth of more than $2 million (the “net worth test”).

Inflation Adjustment of Dollar Amount Thresholds

Pursuant to the Dodd-Frank Act, the amendments to Rule 205-3 require the SEC to issue an order every five years adjusting the assets under management test and the net worth test for inflation. As amended, paragraph (d) of rule 205-3 provides that the assets-under-management threshold is $1 million and that the net worth threshold is $2 million. The inflation adjustment will be pegged to changes in the Personal Consumption Expenditures Chain-Type Price Index (“PCE Index”).

Exclusion of the Value of Primary Residence from Net Worth Determination

The amendments to rule 205-3 exclude the value of a natural person’s primary residence and certain debt secured by the property in calculating a person’s net worth for Rule 205-3 purposes. While this revision is not mandated by the Dodd-Frank Act, it conforms to the changes in the “accredited investor” standard under the Securities Act of 1933 imposed by Dodd-Frank.

The amendments exclude debt secured by a natural person’s primary residence up to the fair market value of the residence; however, any increase in the amount of debt secured by the primary residence in the 60 days before the advisory contract is entered into must be included as a liability. The SEC’s decision to implement this 60-day look back provision is predicated on its desire to prevent investors from inflating their net worth by borrowing against their homes, effectively converting their home equity — which is excluded from the net worth test calculation under the amendments — into cash or other assets that would be included in the net worth test calculation. For any outstanding debt secured by the primary residence that exceeds the market value of the residence, the amount in excess is considered a liability in calculating net worth.

Transition Provisions

The amendments to rule 205-3 provide transition rules designed to allow advisers and clients to maintain existing performance fee arrangements that were permissible when the contract was entered into, even if the arrangements would no longer be permissible if entered into anew. As a result, clients who were considered “qualified” because they entered into a contractual arrangement with the adviser under one set of qualified client dollar thresholds, may maintain their performance fee relationships and make additional “new money” investments with the adviser, even though the client would not be considered “qualified” if it entered into the advisory arrangement at a later date. If, however, another person that was not a party to the contract becomes a party, the conditions of the amended rule will be applicable to that person.

Second, the amendments “grandfather” performance fee clients of investment advisers now required to be registered under the Dodd-Frank Act (but previously exempt from registration under Rule 203 of the Advisers Act), so that these performance fee relationships can be retained even if those clients do not meet the amended “qualified client” tests of Rule 205-3

Finally, the amendments to rule 205-3 allow for limited transfers of interests from a qualified client to a person who was not a party to the contract and is not a qualified client at the time of transfer. If an owner of an interest in a private investment fund transfers the interest by gift or bequest, or pursuant to an agreement related to a legal separation or divorce, the transfer will not cause the transferee to “become a party” to the contract and will not require the transferee to meet the definition of a qualified client under Rule 205-3.

Qualified Clients

Rule 205-3 permits the use of performance fee advisory contracts when dealing with "qualified clients", which are defined as:

- A natural person with at least $1 million in assets under management with the investment adviser immediately after entering into the advisory contract (the "assets under management test");

- A natural person whom the adviser reasonably believes has, prior to entering into the advisory relationship, a net worth of more than $2,000,000; for the purposes of calculating a natural person's net worth, the person's primary residence must not be included as an asset and the Indebtedness secured by the person's primary residence, up to the estimated fair market value of the primary residence at the time the investment advisory contract is entered into may not be included as a liability (except that if the amount of such indebtedness outstanding at the time of calculation exceeds the amount outstanding 60 days before such time, other than as a result of the acquisition of the primary residence, the amount of such excess must be included as a liability); and Indebtedness that is secured by the person's primary residence in excess of the estimated fair market value of the residence must be included as a liability (the "net worth test"); or

- is a qualified purchaser as defined in section 2(a)(51)(A) of the Investment Company Act of 1940 at the time the contract is entered into; or

- A natural person who immediately prior to entering into the contract is an executive officer, director, trustee, general partner, or person serving in a similar capacity, of the investment adviser; or an employee of the investment adviser (other than an employee performing solely clerical, secretarial or administrative functions with regard to the investment adviser) who, in connection with his or her regular functions or duties, participates in the investment activities of such investment adviser, provided that such employee has been performing such functions and duties for or on behalf of the investment adviser, or substantially similar functions or duties for or on behalf of another company for at least 12 months.

"Look Through" Requirement

Requirement

Where the advisor has a performance fee arrangement with a registered investment company, a business development company or a private investment company relying on a 3(c)(1) exemption under the Investment Company Act, the revised rule continues to require a "look-through" for purposes of the qualified client test; each "equity owner" in any such company other than the adviser and any person who is not charged a performance fee must be a qualified client. However, any equity owner who is the investment adviser or who is not charged a performance fee need not be a qualified client. The rule requires that each "tier" of a multi-owned entity be examined in the following manner.

Example. If an entity meeting the above criteria seeks to enter into a performance fee contract (first tier) and is owned by another entity meeting this criteria (second tier), the Firm must ascertain that the second (and any

other) level entity satisfies the requirements as a qualified client under *Rule 205-3*.

Disclosure

Rule 205-3 only requires that clients meet the prescribed eligibility tests. Fiduciary obligations, though, require that the Firm deal fairly with its clients and make full and fair disclosure of its compensation arrangements. This obligation includes full client disclosure of all material information regarding a proposed performance fee arrangement as well as any material conflicts posed by the arrangement. ►►

Implementation Strategy

Under its advisory agreements, the Firm does not currently receive performance fees on assets that it manages. It may, however, share in performance fees charged by other advisors to whom it refers clients or with whom it acts as a co-advisor. The designated supervisor will ensure that all associated persons of the Firm are in compliance with internal policies and procedures and in accordance with *Rule 205-3* as specified above.