



# Disclosure Document for BPU Investment Management, Inc.

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## *Investment Advisory Services*

- **Portfolio Advisory Solutions (PAS)**
- **Client / Advisor Program (CAP)**
- **Privately Managed Account Program (PMA)**
- **Outside Manager Program (OMA)**

Last Annual Update  
**March 29, 2011**

This brochure provides information about the qualifications and business practices of BPU Investment Management, Inc. If you have any questions about the contents of this brochure, please contact us at 800-822-6585. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Use of the word “registered” does not imply a certain level of skill or training.

Additional information about of BPU Investment Management, Inc. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

### **BPU Investment Management, Inc.**

Member FINRA/SIPC | a Registered Investment Advisor

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**Table of Contents**

- Investment Advisory Services* ..... 1
- 1. Advisory Business ..... 4
  - Introduction to BPU Investment Management, Inc. (“BPU”) ..... 4
  - Advisory Services Offered ..... 4
  - Investment Advice Tailored to Our Clients ..... 5
  - Wrap Fee Programs ..... 5
  - Discretionary Assets Under Management ..... 6
- 2. Fees and Compensation ..... 6
  - Compensation for Advisory Services ..... 6
  - Weighted Billing Schedule ..... 7
  - Technology Fee ..... 8
  - Performance Link Fee ..... 8
  - Specific Program Fees ..... 8
    - Privately Managed Account Program (“PMA”) ..... 8
    - Client / Advisor Program (“CAP”) ..... 9
    - Outside Managed Account Program (“OMA”) ..... 10
    - Portfolio Advisory Solutions (“PAS”) ..... 10
  - Inception and Post-Inception Billing ..... 11
  - Manager Fees ..... 11
  - Mutual Fund Fees ..... 11
- 3. Performance-Based Fees and Side-By-Side Management ..... 12
  - Performance Based Fee ..... 12
  - Hourly Based Fee ..... 12
- 4. Types of Clients ..... 13
- 5. Methods of Analysis, Investment Strategies and Risk of Loss ..... 14
  - Portfolio Advisory Solutions (“PAS”) ..... 14

Privately Managed Account Program (“PMA”).....	15
Core Total Return Portfolio (“CTRP”).....	15
Quantitative Global Strategy (“QGS”).....	15
Advisor Directed: Enhanced Equity (“EES”) and Premiere Dividend Strategies (“PDS”).....	16
Risks of investments listed in BPU Advisor Managed Programs .....	16
6. Disciplinary Information.....	17
7. Other Financial Industry Activities and Affiliations.....	18
8. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	19
9. Brokerage Practices .....	20
10. Review of Accounts .....	21
11. Client Referrals and Other Compensation .....	22
12. Custody.....	23
13. Investment Discretion.....	23
14. Voting Client Securities .....	24
15. Financial Information.....	24

# Disclosure Document for BPU Investment Management, Inc.

## I. Advisory Business

### Introduction to BPU Investment Management, Inc. (“BPU”)

BPU is a federally registered investment advisor with the SEC. BPU is also an introducing broker / dealer on a fully disclosed basis and a member of FINRA and SIPC. BPU utilizes various firms as listed in this document to clear transactions and custody client assets. The firm was founded as Berkowitz and Pierchalski in 1986. BPU is a Sub-chapter S corporation and has three principal owners: Mr. Rick Pierchalski, Founder and CEO; Mr. Robert Unkovic, President; and, Mr. Paul Brahim, Executive Vice President.

The firm’s core competencies include wealth management services for private clients; asset management for fiduciary accounts; institutional trading services; and, advisory services for businesses engaged in capital markets transactions.

Clearing and custody services provided through Pershing LLC (“Pershing”), member New York Stock Exchange and SIPC, and custody services provided through Fidelity Institutional Brokerage Group (“Fidelity”), introducing broker dealer to National Financial Services (“NFS”) and Charles Schwab Institutional (“Schwab”).

### Advisory Services Offered

The managed account services that may be offered by the BPU’s financial advisors include the following:

- Sponsoring a managed account or wrap fee program (“Sponsor”).
- Preparing written investment strategies and plans, including providing full service Financial Planning and tactical Investment Management Planning which defines client financial objectives and goals as outlined by the Client and their Advisor.
- Developing asset allocation strategies to meet the financial goals of clients while recommending specific investment style allocations.
- Utilizing Fundamental and/or Quantitative Analysis to evaluate, research and hire, on behalf of the client, investment management firms (including independent,

unaffiliated money management firms) and other investment vehicles appropriate for the Client's portfolio.

- Reporting and reviewing the performance of money management firms and other investment vehicles and recommending periodic rebalancing and investment plan fine-tuning.
- Reporting progress toward the Client's investment goals through Financial Planning or Investment Management Planning.
- Investment Fiduciary Consulting including assessment of investment practices, analyses of current investment strategy and holdings, asset allocation modeling, investment policy statement development and manager search selection, ongoing monitoring and review through quarterly investment committee meetings.
- Acting as investment manager for certain discretionary proprietary products as described herein.

## **Investment Advice Tailored to Our Clients**

BPU's financial advisors utilize software and documentation provided by BPU to assist the Client in selecting an investment style allocation and/or a diversified portfolio of investments including investment vehicle or individual managers appropriate for the Client both initially and on an on-going basis. The financial advisor collects personal and financial information from the Client and assists them in establishing investment objectives and strategies through a discovery process including at a base, risk profiling up to full service financial planning. Our discovery process helps the financial advisor assist the Client in selecting who is best suited to manage the portfolio.

## **Wrap Fee Programs**

BPU participates in wrap fee programs by providing portfolio management services. Our clients participate in similar discovery processes and financial analysis, whether Investment Management or comprehensive Financial Planning, regardless of the way in which they choose to invest with BPU. Accounts that choose to participate in portfolio management services will generally not notice a difference in the management of their portfolio, as compared to a similar strategy employed outside of the wrap program. As part of our portfolio management services, BPU does collect, as a flat fee or percentage of assets, a portion of the wrap fee for our services.

## **Discretionary Assets Under Management**

BPU does manage client assets on both a discretionary and non-discretionary basis.

Generally, BPU has limited to zero investment discretion or other discretionary authority with respect to Client's securities as pertains to the Outside Managed Account Program (OMA). The Manager(s) selected by the Client are granted investment discretion by the Client and exercise this authority in the day-to day portfolio management of the Client's account(s). BPU may exercise discretion, however, in certain instances such as, removal from research coverage or termination of a Manager. In addition, in instances where a Manager will not accept a particular security in a client's portfolio, BPU may liquidate the rejected security and then forward the proceeds of such liquidation to the Manager.

BPU has no discretionary authority in the Client / Advisor Program (CAP). The client, before execution, approves all CAP account trades.

BPU maintains full discretionary authority in the Privately Managed Account Program (PMA) (financial advisor managed) and the Portfolio Advisory Services Program (PAS) (BPU's wrap program which can include mutual funds, ETFs, and separately managed accounts in a unified strategy).

As of March 1, 2011, BPU manages approximately \$ 422,028,201.36 of assets with discretion, and \$ 78,486,744.47 without.

## **2. Fees and Compensation**

### **Compensation for Advisory Services**

Client fees are calculated in accordance with the Investment Management Agreement. Some Clients may pay more or less than others depending on certain factors, including the type and size of the account(s), the historical or anticipated transaction activity, the range of additional services provided to the account, the amount of Client relationship assets under management with BPU, and the managed account program in which the Client participates.

The total fee assessed to the Client will vary depending on the services the Client selects.

Typically, the Client fee will include the Manager(s) fee, financial advisors fee and any clearing and execution fees as applicable. Fees are calculated as an annual percentage of assets based on the value of the account. Fees are billed pro rata at inception of the account for the remainder of the calendar quarter and quarterly thereafter, unless indicated otherwise.

Each Manager engaged by or on behalf of the Client will set and charge fees independently of one another and, as such, fees may vary from Manager to Manager, as described below. Unless the Client instructs otherwise, BPU generally debits the Client's account for the fees charged by BPU, and/or the selected Manager(s) and remits the fees to the respective parties accordingly. Clients are also advised that they may pay more or less for services at BPU than they would if they purchased similar services separately from other providers.

In addition to the aforementioned, there may be other costs assessed which are not included in the wrap fee arrangement, such as transaction fees for trading the portfolio, costs associated with the purchase and sale of certain mutual funds, odd-lot differentials, exchange or auction fees, transfer taxes, electronic fund and wire transfers, fees imposed on cash management accounts, trust services charges and other charges mandated by law. Additional fees where applicable, are disclosed in the Investment Management Agreement.

### **Weighted Billing Schedule**

BPU uses a weighted billing schedule as opposed to a break point billing schedule. In a breakpoint schedule, all assets are billed at the same rate and that rate typically decreases once a client's asset value increases to the next level. For example, if a client has \$1,000,000 of investable assets, and the break point billing schedule is 1.5% up to \$500,000 and 1.25% up to \$1,000,000, the entire portfolio would be billed at the 1.25% rate.

In a weighted billing schedule, assets are billed based on multiple, weighted rates consistent with the total value of the client's portfolio. For example, if a client has \$1,000,000 of investable assets and the weighted billing schedule is 1.5% for the first \$500,000 and 1.25% for the next \$500,000, the weighted billing rate would be 1.38%

## **Technology Fee**

All clients are charged a technology fee of \$35 per managed account, up to a household maximum of \$100.

## **Performance Link Fee**

BPU provides Performance Link functionality to clients, which allows for consolidated performance reporting of managed accounts and retail accounts, on the Pershing platform. The custodian provides such consolidated performance reporting on a quarterly basis. The client selects the performance benchmark to be applied to the affected accounts. This fee is in addition to the account fee program and is borne by the client as a direct pass thru charge from the custodian.

The fee for Performance Link functionality is on a per account basis (based on Account Level Assets) as follows:

First \$500,000	3 basis points
Next \$500,000	2 basis points
Over \$1,000,000	0 basis points

The minimum fee charged per quarter per account is \$35.00. The maximum fee charged per quarter per account is \$62.50.

## **Specific Program Fees**

### **Privately Managed Account Program (“PMA”)**

#### ***Representative Advised Program***

The Representative Advised Program accounts are charged an all-inclusive “wrap fee” that is for both investment advice and clearing and execution services. If the PMA agreement is terminated during a quarter, which may be done at any time upon written notice from the applicable client, a pro rata refund will be made to the client. The maximum PMA fee is 1.50% of account asset value.

#### ***Core Total Return Portfolio***

The Core Total Return Portfolio Program accounts are charged an all-inclusive “wrap fee” that is for both investment advice and clearing and execution services. Some portfolios may incur a transaction fee for trading in the portfolio. Where these fees are applicable, they will be disclosed in the Investment Management Agreement. If the PMA agreement is terminated during a quarter, which may be done at any time upon written notice from the applicable client, a pro rata refund will be made to the client. Maximum Fee Schedule as follows:

<u>Aggregate Market Value of Assets Under Management</u>			<u>Fee</u>
\$0	to	\$1,500,000	1.25%
\$1,500,001	to	\$3,000,000	1.00%
\$3,000,001	to	\$5,000,000	.75%
over \$5,000,001			.50%

**Quantitative Global Strategy**

Quantitative Global Strategy accounts are charged an all-inclusive “wrap fee” that is for both investment advice and clearing and execution services. If the PMA agreement is terminated during a quarter, which may be done at any time upon written notice from the applicable client, a pro rata refund will be made to the client. Maximum Fee Schedule as follows:

<u>Aggregate Market Value of Assets Under Management</u>			<u>Fee</u>
\$0	to	\$500,000	2.00%
\$500,001	to	\$1,000,000	1.25%
\$1,000,001	to	\$2,500,000	1.00%
\$2,500,001	to	\$5,000,000	0.75%
\$5,000,001	to	thereafter	0.50%

**Client / Advisor Program (“CAP”)**

CAP accounts are charged an all-inclusive “wrap fee” on Program Assets that covers advisory fees, execution, custodial, and reporting services on Eligible Assets. Clients pay all of BPU’s usual and customary commissions and transaction fees and other charges for transactions in Excluded Assets. Commissions and fees on Excluded Assets and other charges will be assessed against a client’s account on or about the transaction date or such other date as assessed by BPU or Pershing. If the CAP agreement is terminated during a quarter, which may be done at any time upon written notice from the applicable client, a pro rata refund will be made to the client.

Most types of securities are eligible for purchase in CAP accounts including, but not limited to, common and preferred stocks, exchange traded funds, closed end funds, fee-based unit investment trusts, corporate and government bonds, certificates of deposit,

options and certain mutual funds whose shares can be purchased at net asset value (collectively, "Program Assets"). Program Assets do not include commodity futures contracts, options on such contracts, managed futures, hedge funds, annuities, limited partnership interests, and mutual funds that cannot be purchased at net asset value (collectively, "Excluded Assets"). Clients may purchase or sell Excluded Assets in their account, and appropriately may incur transaction charges on these purchases.

The maximum fee is 1.50% for Program Assets. This rate will be used to determine each quarterly fee and will be recalculated each quarter based on the current quarter-end market values attributed to Program Assets.

### **Outside Managed Account Program ("OMA")**

Through OMA, BPU will assist clients in identifying a Money Manager to advise and counsel the client relative to the client's investment of assets. The intent of this program is to offer the client a universe of competitive managers who represent a broad range of investment styles and classes from which the client along with the aid of the financial advisor may select.

OMA accounts are charged an all-inclusive "wrap fee" which includes custody and clearing services; separate account manager's investment management services; and, the services of your financial advisor. If the OMA agreement is terminated during a quarter, which may be done at any time upon written notice from the applicable client, a pro rata refund will be made to the client.

The maximum combined fee for this service, is 2.55% of clients assets in the program.

Clients authorize us to pay the separate investment advisory management fee invoiced by the advisor by debiting the Client account accordingly. The Client may revoke our authorization to pay the investment management fee on behalf of the Client any time by written notice to us.

### **Portfolio Advisory Solutions ("PAS")**

PAS accounts are charged a "wrap fee" that is for both investment advice and clearing and execution. Accounts may be charged fees on certain mutual fund share classes, delivery versus payment fees on certain bonds, and commissions on equity transactions to Fidelity. The standard PAS fee schedule is 1.50% of account asset value. If the PAS

agreement is terminated during a quarter, which may be done at any time upon written notice from the applicable client, a pro rata refund will be made to the client less reasonable start-up costs, if applicable.

<u>Aggregate Market Value of Assets Under Management</u>	<u>Fee</u>
0 to \$500,000	1.50%
\$500,001 to \$1,000,000	1.25%
\$1,000,001 to \$2,500,000	1.00%
\$2,500,001 to \$5,000,000	0.75%
\$5,000,001 or more	0.50%

### **Inception and Post-Inception Billing**

For all wrap programs offered at BPU, at inception, fees are billed from the date the account is opened through the end of that calendar quarter in advance. Thereafter, fees are billed in advance for the next calendar quarter based on the value of the assets at the end of the prior calendar quarter. For post-inception deposits / withdrawals in excess of \$10,000, prorated fees on each deposit / withdrawal may be charged or rebated. The inflows and outflows are aggregated monthly and invoiced with the billing on the next calendar quarter.

### **Manager Fees**

As described above, Managers are contractually engaged on behalf of, or by, the Client for the day-to-day management of the account(s). The fees for this service will vary as each Manager sets its fee independently; however, the Managers' fees typically range between 0.10% - 1.00% of assets annually on an account basis, depending on the size of the Client relationship and style of management.

### **Mutual Fund Fees**

Equity Mutual Funds, Commodities and L/S may be higher

BPU will sometimes employ the use of Mutual Funds as part of the Managed Portfolio. Fund manager are subject to an internal fee structure that may include management fees, operating expenses and/or 12b-1 fees. Each manager discloses these fees in its own prospectus, offering memorandum or ADV Part II or 2, which is delivered to the client prior to, or at the time of investment. These fees are in addition to BPU's investment

management fees and are born by the client. In all cases, BPU will notify clients when such a conflict may arise.

BPU will in some cases, be paid a portion of the fees collected, causing a potential conflict of interest. BPU does not exclusively use funds which charge these additional fees and will utilize load waived, no load or institutional class shares as available.

BPU has entered into an arrangement with Fidelity Brokerage Services, LLC ("FBS") whereby we are paid a percentage of the total 12b-1 fees (Non ERISA accounts) received from fund companies by FBS as it relates to shares of eligible mutual funds sold or held in BPU's client accounts. This compensation is calculated and paid to the firm on a monthly basis. Investment Advisor Representatives (Financial Advisors) do not participate in this fee.

BPU has entered into an arrangement with Lockwood Capital Management, Inc. (LCM) an affiliate of Pershing LLC. whereby we are paid a fee to sponsor programs offered by LCM as part of our Outside Manager Program. These fees are paid by LCM to BPU and are not born by the client. With respect to the Lockwood Investment Strategies (LIS) programs, fees paid to BPU by LCM range from 2 to 8 basis points on the managed account balance. With respect to the Lockwood Asset Allocation Portfolio programs (LAAP), fees paid by LCM to BPU range from 1 to 3 basis points on the managed account balance. This compensation is calculated and paid to BPU on a monthly basis.

As a result, Registrant has an incentive to invest client assets in the mutual funds for which it receives this additional compensation. However, Registrant shall maintain its fiduciary duty by only recommending money managers that it deems appropriate and suitable for its clients. In addition, Registrant's due diligence process when selecting money managers includes complying with the standard set by the Center for Fiduciary Studies recommendation in that an investment product not be in bottom quartile of expenses (including any 12b-1 fees) relative to its peers. Further information regarding 12b-1 fees may be found in the respective mutual funds' prospectuses.

***The Registrant DOES NOT receive any remuneration on ERISA Accounts.***

### **3. Performance-Based Fees and Side-By-Side Management**

#### **Performance Based Fee**

BPU does not charge any account a performance based fee and therefore has no conflict of interest with the recommendations being made to our clients.

#### **Hourly Based Fee**

BPU does provide financial needs analysis and recommendations to our clients for a fee.

The basis for this fee is a maximum charge of \$350.00 per hour for actual time spent. This analysis involves a comprehensive understanding of the data and information provided by the client as it relates to the client's current family and financial situation. We utilize data gathering tools in concert with structured interview techniques to obtain this information. We then prepare specific recommendations that enable our client to meet their stated financial objectives in the following areas:

1. Cash management, budgeting and debt management
2. Risk management needs in these areas:
  - a. Life insurance planning
  - b. Disability insurance planning
  - c. Long-term health care insurance planning
3. Tax planning
4. Retirement planning
5. Education planning
6. Investment review and planning
7. Investment management
8. Estate planning

The total fee for this analysis and recommendation is due at the final delivery of the written document.

Since the client paid a fee for the advice, the client is under no obligation to implement the recommendations with BPU. The client may choose any securities broker, insurance agent or investment adviser to implement our recommendations.

Should the client choose to implement any of the recommendations with the Registrant, all normal and customary fees disclosed in this document apply.

#### **4. Types of Clients**

BPU Investment Management provides asset management and investment consulting services to individuals, families, trusts, non-profits, retirement plans and institutions and all types of fiduciary accounts.

Generally, there is no minimum account size for BPU's Sponsored Managed Account Programs, although it should be noted, that Managers will generally not accept accounts under \$50,000, with the minimum account sizes varying slightly in some instances. Minimums are generally lower, or waived entirely, for retirement plan accounts.

It should also be noted; that programs offered through the Outside Manager Program, including Lockwood Capital Management, Inc., may set account minimums.

## **5. Methods of Analysis, Investment Strategies and Risk of Loss**

BPU uses Modern Portfolio Theory techniques to provide investment management services to clients. We adhere to the following process when providing these investment supervisory services.

1. Analyze client's current investment position
2. Design optimal portfolio(s)
3. Formalize a written investment policy statement
4. Select investment managers to implement the policy
5. Monitor investment results
6. Periodic rebalancing back to target allocations

The investment return and principal value of any investment will fluctuate. Thus, an investor's shares, when redeemed, may be worth more or less than their original cost.

BPU does manage portfolios in house, each with own methods of analysis, investment strategies and risks.

### **Portfolio Advisory Solutions (“PAS”)**

Through PAS, financial advisors of BPU provide investment advisory and brokerage service to client accounts on a discretionary basis thru the use of asset allocated investment models (which can include mutual funds, ETFs, and separately managed accounts in a unified strategy).

The PAS financial advisors develop disciplined portfolios based on the client's investment objectives and individual needs as established in investment portfolio and strategy criteria. The models are rebalanced on a periodic basis as related to current allocation and target balances.

All mutual funds in the program are tracked and monitored by BPU personnel. A “watch list” of investment products is maintained for those funds not meeting BPU's screening

criteria and are replaced as deemed appropriate. The PAS program is designed to provide a disciplined advisory approach to meet client objectives and needs.

## **Privately Managed Account Program (“PMA”)**

### **Core Total Return Portfolio (“CTRP”)**

The CTRP's objective is to provide a diversified, tax efficient, portfolio designed to produce consistent long-term appreciation with cash flow equal to or greater than the dividend yield of the S&P 500. The core portfolio strategy has the goal of an up market capture ratio of 80% and a down market capture ratio of 70%. Short-term performance is not a primary objective of this portfolio. Assets invested in high quality, dividend-paying stocks should help provide principal protection in the case of sustained market weakness and the use of covered call option writing strategies may be used to maintain both cash flow and portfolio total return.

CTRP seeks to maintain a low turnover-tax efficient portfolio of approximately 40 stocks with exposure to most of the major economic sectors. The cash flow objective is to provide a dividend yield equal to or greater than the S&P 500. Occasionally we may use non-dividend paying stocks if they have strong balance sheets, appear to have above average appreciation potential and/or they diversify other holdings within the sector.

Approximately 75% of the securities in the portfolio will fit the core-holding criteria. No security will represent more than 5% of market value of the total portfolio. Core holding stocks will have a market cap greater than \$2 billion, investment grade financial strength, strong cash flow, above average earnings and dividend predictability and a portfolio beta less than 1.0. Opportunity holdings will have above average total return potential over shorter holding periods. We will add to total return by writing covered call options, and may from time to time own preferred stocks and convertible securities. Stocks are identified using the Standard & Poors equity data base and confirmed with S&P analyst coverage and research from Credit Suisse, J.P. Morgan, Morningstar, Strategas Research Partners and Ned Davis Research. Stocks will be sold or reduced if they exceed 5% of the equity portfolio or no longer meet quality standards. A decline of 20% from average portfolio cost will force a revaluation or regular reviews identify a more attractive holding.

### **Quantitative Global Strategy (“QGS”)**

The QGS seeks long-term capital appreciation. Under normal conditions, the Strategy seeks to achieve its objective by investing Client's assets in equity ETF funds, diversified globally by utilizing six equity ETFs. The inclusion of all major global regions and market capitalization should provide both diversification and risk management benefits that work to

improve the risk/reward trade-off over time. The Strategy may utilize cash positions from time to time, and in the Manager's sole discretion, to protect against potential losses.

The QGS utilizes a quantitative modeling system, developed by Ned Davis Research, Inc.<sup>®</sup> that has been back-tested to 1989, to determine whether the inherent allocations within the MS All Country World Index (ACWI), as represented by six regional and country Indices it utilizes, should be over-weight, market-weight or under-weight relative to the ACWI. The QGS model is derived from this research. This research, together with other internal and external data, is analyzed to determine which ETFs and the degree of weighting to each that will be utilized in the Strategy to affect its overall objectives.

**Advisor Directed: Enhanced Equity (“EES”) and Premiere Dividend Strategies (“PDS”)**

The EES Model seeks long-term capital appreciation by investing in ETF's and individual securities. The objective of the Strategy is to outperform the Standard and Poors (S&P) 500<sup>®</sup> Index by utilizing a quantitative ranking system derived for a multi-cap universe and complemented by sound fundamental internal stock research. Ned Davis Research, Inc.<sup>®</sup> (NDR<sup>®</sup>) and S&P<sup>®</sup> provide the underlying research for the quantitative ranking system.

The PDS Model seeks current income and long-term capital appreciation by investing in ETF's, common stocks, preferred stocks, convertible securities, and fixed income securities. The objective of the Strategy is to maximize current income and capital appreciation by utilizing quantitative security screens that is complemented by sound fundamental internal stock research. NDR<sup>®</sup> and S & P<sup>®</sup> provide the underlying research for the quantitative ranking system.

In both Models, the fundamental stock research involves the analysis of data from numerous sources as listed in the Investment Strategy Guideline for the program.

In both the EES and PDS Model Regional, country, style specific, and commodity ETFs will also be used when deemed appropriate. Both Models will utilize common stocks and ETF's within given sectors, and in addition, preferred stocks, and convertible securities and fixed income securities will be utilized in the PDS Model.

**Risks of investments listed in BPU Advisor Managed Programs**

- Asset allocation, diversification and rebalancing do not assume a positive return or protect against loss.
- Investments in Bonds or Fixed Income are subject to interest rate risk. Bond prices generally fall when interest rates rise. All bonds, excluding US Treasuries, have a risk of

credit default. Non-Domestic bonds and Hi-Yield bonds generally carry a greater risk due to the nature of the issuers. Non-Domestic bonds are subject to economic, political and currency risk and may experience a greater degree of market volatility. Hi-Yield bonds are speculative, have a higher risk of default or are already in default, tend to be less liquid and are more difficult to value than higher grade securities. These bonds tend to be more volatile and more susceptible to adverse events and negative sentiments.

- Investments in Small and/or Mid Cap companies generally carry a great risk and may experience a greater degree of market volatility.
- Investments in Global or International securities are subject to economic, political and currency risk and may experience a greater degree of market volatility.
- Market Neutral investments are unique and complex strategies designed “neutralize,” or limit, the effect of stock market movement on returns. Because of this, return is often uncorrelated to that of the stock market. Strategies involve long- and short-selling and carry specific risks not found in traditional investments.
- Real estate investments may be subject to a higher degree of market risk because of concentration in a specific industry, sector or geographical sector. Real estate investments may be subject to risks including, but not limited to, declines in the value of real estate, risks related to general and economic conditions, changes in the value of the underlying property owned by the trust and defaults by borrower.
- Writing and purchasing call and put options are highly specialized activities and entail greater than ordinary investment risks. The successful use of options depends in part on the future price fluctuations as the degree of correlation between the options and the securities markets. Values may fluctuate, and you may lose all of the cash paid for purchasing and could be at risk of losing the underlying stock if used to cover.
- Investments in commodities may have greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of the investment are subject to changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Use of leveraged commodity-linked derivatives creates an opportunity for increased return but at the same time, creates the possibility for greater loss.

## **6. Disciplinary Information**

This section contains information on certain legal and regulatory matters affecting BPU.

Case No. 07-01864: Estate of Lewis A. Scull, Jr. vs. BPU Investment Group, Inc., et al. On or about June 18, 2008, a Statement of Claims was filed by the Estate of a deceased customer against 20 member, non-member and associated persons, 12 of which were related to or affiliated with BPU (the “BPU Respondents”). In support thereof, Claimant alleged numerous grounds of wrongful conduct arising from the sale of high risk securities and investments to the decedent without properly determining his risk tolerances and investment objectives. Claimant further alleged that the Advisor employee of the BPU Respondents negligently handled the decedent’s accounts, causing him to sustain substantial monetary losses and adverse tax consequences.

All claims against the Non-BPU Respondents were settled without adjudication through FINRA arbitration.

On or about July 15, 2008 an Award was entered jointly and severally in favor of the Claimant and against all but one BPU Respondent in the amount of One Hundred Eighty-Seven Thousand Five Hundred Dollars (\$187,500.00). In addition, an Award was entered against the Advisor individually in the amount of Sixty Two Thousand Five Hundred Dollars (\$62,500.00). Claimant’s request for punitive and treble damages, and for counsel fees was specifically denied with prejudice.

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

BPU is dually registered as a Broker Dealer and as a Registered Investment Advisor. BPU is an Introducing Broker Dealer that clears transactions on a fully disclosed basis through Pershing, LLC. BPU also utilizes Fidelity and Schwab as custodian for our Investment Advisory Services.

The principals and certain investment advisory representatives of BPU are also licensed agents for various insurance companies, as well as registered representatives of the firm, an Introducing Broker Dealer, and member of FINRA and SIPC.

Therefore, the purchase or sale of a financial instruments including, but not limited to, stocks, bonds, mutual funds, insurance products and interests in the limited partnerships, or otherwise, executing transactions through BPU, may result in compensation to persons who are rendering financial advice and/or analysis.

Prior to each securities and/or insurance transaction under which the associates of BPU may receive compensation, full disclosure to the client will be made of:

- a. The capacity in which BPU or associates are acting in the transaction and whether any compensation is to be earned by the owners or associates.
- b. Any interest that BPU or associates have in the transaction which may be adverse to your interest.

BPU also maintains a relationship with Underwriters Brokerage Service (“UBS”), who provides insurance solutions for our advisors and our clients. Transactions placed through UBS will result in a portion of the commission collected being paid to BPU.

As with all advice regarding buying or selling for investment management or planning purposes, clients may choose to make their transactions with any custodian or broker-dealer they choose.

## **8. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

On February 1, 2005, BPU adopted its Code of Ethics (“Code”) pursuant to Rules 204A-1 and 204-2 of the Advisors Act. The Code is distributed to all personnel and periodic training is provided to employees. The Code addresses a variety of topics relating to the appropriate conduct of investment advisory personnel, including the following:

1. fiduciary duties of advisory personnel;
2. confidentiality duties of advisory personnel;
3. gift policy;
4. trading policy for advisory personnel;
5. reporting, review and record-keeping obligations; and
6. avoidance of conflicts of interest.

The Code of Ethics is predicated on the principle that BPU owes a fiduciary duty to its Clients. Accordingly, Employees must avoid activities, interests and relationships that run contrary (or appear to run contrary) to the best interests of Clients. At all times, BPU when performing its duties as a Registered will be mindful to:

- ***Place client interests ahead of BPU’s*** – As a fiduciary, BPU will serve in its Clients’ best interests. In other words, Employees may not benefit at the expense of Clients.

- **Engage in personal investing that is in full compliance with BPU's Code of Ethics** – Employees must review and abide by BPU's Personal Securities Transaction and Insider Trading Policies.
- **Avoid taking advantage of your position** – Employees must not accept investment opportunities, gifts or other gratuities from individuals seeking to conduct business with BPU, or on behalf of an advisory client, unless in compliance with BPU's Gift Policy.
- **Maintain full compliance with the Federal Securities Laws** – Employees must abide by the standards set forth in Rule 204A-I under the Advisers Act.

A complete copy of BPU's Code of Ethics is available upon request.

## 9. Brokerage Practices

BPU has an arrangement with a variety of custodians including: National Financial Services LLC and Fidelity Brokerage Services LLC , Pershing, and Charles Schwab, (collectively, and together with all affiliates, "custodians"), through which they provide BPU with "institutional platform services." The institutional platform services include, among others, brokerage, custody, and other related services.

Institutional platform services assist BPU in managing and administering clients' accounts include software and other technology that:

- provide access to client account data (such as trade confirmations and account statements);
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- provide research, pricing and other market data
- facilitate payment of fees from its clients' accounts; and
- assist with back-office functions, recordkeeping and client reporting.

BPU does not currently maintain any formal soft dollar arrangements. However, Fidelity, Pershing and Schwab provide BPU with proprietary and third-party research and other products and services (i.e. receipt of duplicate trade confirmations and account statements, trading desk access, pricing information and other market data, the ability to aggregate clients' securities transactions, the ability to directly debit advisor fees from clients' accounts, receipt of compliance publications, and access to mutual funds which

generally require significantly higher minimum initial investments or are generally available only to institutional investors).

Our custodians also provide BPU with information and consulting services intended to help BPU manage and further develop its advisory practice. These services may include information technology consulting and marketing consulting, which involves plan/program development, execution, reviews, performance reporting, financial planning, contact management systems, publications, access to educational conferences, roundtables and webinars, practice management resources, access to consultants and other third party service providers who provide a wide array of business related services and technology with whom BPU may contract directly. BPU would receive these benefits regardless of the volume of trading it places any custodian.

BPU is independently operated and owned and is not affiliated with any of the custodians or their affiliates.

The custodians generally does not charge its advisor clients separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through the custodian or that settle into custodial accounts (i.e., transactions fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions).

Fidelity provides access to many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges.

Our custodians provide BPU with certain brokerage and research products and services that qualify as "brokerage or research services" under Section 28(e) of the Securities Exchange Act of 1934 ("Exchange Act").

## **10. Review of Accounts**

Ongoing review and analysis of the investment options is just as important as the due diligence process. There are two levels to review: Account and Investment portfolio.

Client accounts will be monitored on an ongoing basis, with an at least a quarterly review at the time performance analyses are completed, and an annual client meeting to discuss goals and objectives.

We request our clients to inform BPU and their financial advisor, at least annually, of any changes in their financial condition or of any additional investment restrictions

and/or modifications to existing investment restrictions our client wishes to impose. BPU immediately forwards to the program managers any responses, which would impact the daily management of the client portfolio. While there are no restrictions on the ability of our clients to contact and consult with the portfolio managers, it is generally preferred that they do so through, or together with, his or her financial advisor.

Our clients may elect to change investments or portfolio manager at any time. Should financial circumstances change or economic or market conditions change, to the extent that BPU feels that a change is advisable, or, if in BPU's opinion, the investments or portfolio manager selected can no longer meet the client's investment objectives or manage according to certain investment style parameters, or there is a fundamental change in the management which would mandate a switch in investments or portfolio manager the financial advisors may recommend changes in the portfolio.

The performance of the investment selections in the portfolio will be monitored on an ongoing basis; and, depending on the platform, it is BPU's discretion whether and when to take corrective action.

BPU has no discretion to change the client's investment program or model. Should client agree with the financial advisors recommendation to make a manager change, written authorization must be obtained.

## **II. Client Referrals and Other Compensation**

From time to time, an investment adviser representative of BPU travel for on-site visits with investment managers. The investment management companies, for the benefit of brokers, securities analysts, institutional investors and investment advisers, host these meetings. Typically, these meetings last for one and one half business days and the mutual fund or investment management company pays the travel and lodging expense.

The investment products of these companies are either currently used in client portfolios or are under consideration by BPU.

Officials and company representatives present information on and answer questions about a current or pending securities issues. Often these meetings include lectures by securities analysts, portfolio managers and client services executives. Meeting content includes industry data, major trends, operational data, management information and the

financial stability of the issuer. Facility tours are also often included as part of these meetings.

To address conflicts of interest, BPU maintains high level of screening for managers and via written questionnaire, telephone conversation, conference call or face-to-face meeting. Additionally, BPU conducts portfolio manager interviews. These interviews focus on investment committee composition, the hierarchy of decision-making, investment style, portfolio design and buy-sell discipline.

## **12. Custody**

BPU does not maintain custody of client assets, but rather directs them to the appropriate program custodian: Pershing, Fidelity or Schwab. The custodian provides to our clients, at least quarterly, statements containing account information including, but not limited to: Type, name, price per share and number of shares owned for each security.

BPU provides, at least quarterly, performance appraisals containing account information, including but not limited to: Type, name, price per share and number of shares owned for each security, their time weighted rates of return, and comparison to benchmarks chosen for performance evaluation. As no time does BPU maintain the performance appraisal should be a substitute for the official custodial statements.

For certain programs for our clients on the Pershing platform, BPU provides this service via the Performance Link program. For all other advisory clients, performance appraisals are provided directly by BPU.

## **13. Investment Discretion**

BPU will accept discretionary authority to manage securities on behalf of clients. Discretion is limited to implementing portfolio strategy in accordance with the client's Investment Policy Statement via written agreement between the client and their advisor. Each platform has different paperwork and procedures, from a limited power of attorney to a discretionary trading agreement executed through the custodian's new account paperwork.

## **14. Voting Client Securities**

Notwithstanding BPU's discretionary authority to make investment decisions on behalf of Client, we will not exercise proxy-voting authority over Client securities. The obligation to vote Client proxies shall at all time rest with Client. Client shall in no way be precluded from contacting BPU for advice or information about a particular proxy vote. However, we shall not be deemed to have proxy-voting authority solely as a result of providing such advice to Client.

Should BPU inadvertently receive proxy information for a security held in Client's account, then we will make a good faith effort to forward such information on to Client within a reasonable timeframe, but will not take any further action with respect to the voting of such proxy. Upon termination of its Agreement with Client, BPU shall make a good faith and reasonable attempt to forward any proxy information inadvertently received by us on behalf of Client to the forwarding address provided by the client.

A copy of our proxy voting policies and procedures are available upon request.

## **15. Financial Information**

BPU does not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance and therefore maintains no disclosure.