



**Flaherty & Crumrine Incorporated**

301 East Colorado Boulevard, Suite 800

Pasadena, California 91101

626-795-7300

[www.flaherty-crumrine.com](http://www.flaherty-crumrine.com)

**March 30, 2021**

*This Brochure provides information about the qualifications and business practices of Flaherty & Crumrine Incorporated. If you have any questions about the contents of this Brochure, please contact us at 626-795-7300 or [compliance@pfdincome.com](mailto:compliance@pfdincome.com). 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.*

*Flaherty & Crumrine is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser.*

*Additional information about Flaherty & Crumrine also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*



## **Item 2 – Material Changes**

There have been no material changes since we last updated this Brochure on March 30, 2020.

We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Chad Conwell, Chief Compliance Officer, at 626-795-7300 or [compliance@pfdincome.com](mailto:compliance@pfdincome.com). Our Brochure is also available on our website, [www.flaherty-crumrine.com](http://www.flaherty-crumrine.com), without charge.

Additional information about Flaherty & Crumrine is also available via the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website provides information about any persons affiliated with Flaherty & Crumrine who are registered, or are required to be registered, as investment adviser representatives of Flaherty & Crumrine.

**Item 3 – Table of Contents**

Item 1 – Cover Page .....	i
Item 2 – Material Changes .....	ii
Item 3 – Table of Contents .....	iii
Item 4 – Advisory Business .....	1
Item 5 – Fees and Compensation.....	1
Item 6 – Performance-Based Fees and Side-By-Side Management .....	3
Item 7 – Types of Clients .....	3
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	3
Item 9 – Disciplinary Information.....	7
Item 10 – Other Financial Industry Activities and Affiliations.....	8
Item 11 – Code of Ethics .....	8
Item 12 – Brokerage Practices .....	9
Item 13 – Review of Accounts .....	10
Item 14 – Client Referrals and Other Compensation .....	11
Item 15 – Custody.....	11
Item 16 – Investment Discretion .....	11
Item 17 – Voting Client Securities.....	12
Item 18 – Financial Information.....	12
Privacy Policy.....	13
Brochure Supplement	

## **Item 4 – Advisory Business**

Flaherty & Crumrine was founded in 1983 to specialize in the management of preferred securities portfolios. Preferred securities are part of a diverse and highly specialized asset class, with only a very few investment managers who truly understand and specialize in this market. We believe we are one of the most experienced managers in this market.

We are an independently owned, California corporation. 50.2% of the shares are owned and controlled by our employees (R. Eric Chadwick – 17.5%, Bradford Stone – 17.5%, and Chad Conwell – 15.2%). Retired employees of the firm hold the remaining 49.8% (Donald Crumrine – 16.6%, Robert Ettinger 16.6% and Robert Flaherty 16.6%). We believe our independent ownership and business model focused on preferred securities minimize potential conflicts of interest.

We manage the assets of Flaherty & Crumrine Preferred and Income Fund Incorporated (“PFD”), Flaherty & Crumrine Preferred and Income Opportunity Fund Incorporated (“PFO”), Flaherty & Crumrine Preferred and Income Securities Fund Incorporated (“FFC”), Flaherty & Crumrine Total Return Fund Incorporated (“FLC”) and Flaherty & Crumrine Dynamic Preferred and Income Fund (“DFP”) (collectively, the “U.S. Funds”), five closed-end investment companies registered under the Investment Company Act of 1940, as amended (the “1940 Act”), and listed on the New York Stock Exchange. We also sub-advise the assets of Destra Flaherty & Crumrine Preferred and Income Fund, an open-end investment company registered under the 1940 Act (“DPI”), Flaherty & Crumrine Investment Grade Preferred Income Fund (“FFI”), an investment trust registered in Canada, and Brompton Flaherty & Crumrine Investment Grade Preferred ETF, an investment trust registered in Canada (“BPRF”) (together with FFI, the “Canadian Funds”).

Finally, we currently manage portfolios of preferred securities for U.S. and foreign institutions, including insurance companies, nuclear decommissioning trusts, and non-profits.

As of December 31, 2020, our regulatory assets under management were approximately \$4.63 billion.

## **Item 5 – Fees and Compensation**

### **Fees and Agreements for Institutional Accounts**

Fees for “investment supervisory services” of our institutional accounts are generally based upon the market value of the assets managed and may be billed monthly or quarterly. The market value of the assets is determined by the firm’s valuation policies, which are available to clients upon request.

Although variations in fees may occasionally be negotiated to reflect such factors as legal or tax constraints on investment action, significant differences in service requirements and historical agreements, it is our general policy to charge fees in accordance with the schedules set forth below for the several categories of accounts (which presume that the securities will be held in the custody of a bank or trust company):

*Annual Fee Rates:*

- \$0 - \$50 million on assets under management: 0.45%
- \$50 - \$250 million: 0.40%
- Greater than \$250m: 0.35%

There is a minimum fee of \$150,000. Fees may be negotiated depending on the size of the account and the investment services being provided. Comparable services may be available from other sources at lower fees.

We are registered as an investment adviser, not as a broker-dealer, and do not charge any fees based upon client transactions.

We enter into written investment management agreements with each of our institutional accounts. These contracts generally provide that the relationship is terminable at any time by either party. In the event of such a termination, investment advisory fees are prorated to the date of termination, and fees paid, but not yet earned, are refunded.

**Fees for investment companies and other pooled investment vehicles**

Each of PFD and PFO have agreed to pay an advisory fee monthly at an annual rate of 0.625% of its average monthly total net assets up to \$100 million and 0.50% of its average monthly total net assets of \$100 million or more.

FFC has agreed to pay an advisory fee monthly at an annual rate of 0.525% of its average monthly total net assets up to \$200 million, 0.45% of its average monthly total net assets from \$200 million to \$500 million and 0.40% of its average monthly total net assets of \$500 million or more.

FLC has agreed to pay an advisory fee monthly at an annual rate of 0.575% of its average monthly total net assets up to \$200 million, 0.50% of its average monthly total net assets from \$200 million to \$500 million and 0.45% of its average monthly total net assets of \$500 million or more.

DFP has agreed to pay an advisory fee monthly at an annual rate of 0.575% of its average monthly total net assets up to \$200 million and 0.50% of its average monthly total net assets of \$200 million or more.

We sub-advise the portfolio of FFI.UN pursuant to a portfolio management agreement with the fund and Brompton Funds Management Limited, which provides an annual advisory fee of 0.50% of the average weekly net asset value of the fund. This fee may be paid in cash or, subject to compliance with applicable securities laws and the rules of the stock exchange on which the units are listed, in units of the applicable fund or in some combination thereof, at the election of the firm.

We also sub-advise the portfolio of BPRF pursuant to a portfolio management agreement with the fund and Brompton Funds Management Limited, which provides an annual advisory fee of 50% of the advisory fee paid to Brompton by BPRF for its services to the fund (net of any waivers, reimbursement payments or fees waived, reimbursed or paid by Brompton in respect of the fund).

We also sub-advise the portfolio of DPI. Pursuant to an investment sub-advisory agreement, the adviser has agreed to pay us an annualized fee equal to 50% of the advisory fee paid to it for its services to the fund (net of any waivers, reimbursement payments, supermarket fees and alliance

fees waived, reimbursed or paid by the adviser with respect to the Fund). The fund has agreed to pay the adviser a monthly fee in an annual amount equal to 0.75% of the fund's daily net assets.

We periodically provide portfolio consulting services to Guggenheim Funds Distributors, LLC as the sponsor of unit investment trusts. Our services consist of advising Guggenheim in the selection of securities to place into each unit investment trust. In consideration of our advice in connection with any particular trust, we receive a portfolio consulting fee equal to 0.18% of the aggregate daily liquidation value of transactional sales of the trust. We separately receive a 0.07% licensing fee from Guggenheim for the use of our name in the sale of such trust.

### **Other information about our fees**

Our fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. Clients may incur certain charges imposed by custodians, brokers and other third parties such as fees charged by managers, custodial fees, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Such charges, fees and commissions are exclusive of and in addition to our fee, and we shall not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that we consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

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

We do not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

### **Item 7 – Types of Clients**

We offer investment supervisory services to corporations and other business entities, charitable organizations, closed-end funds, mutual funds and similar pooled investment vehicles and individuals. Please see Item 4 for greater detail on our current types of clients.

### **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

#### **Methods of Analysis**

We rely primarily on internally generated research when making investment decisions. Our principal sources of information include the public filings of issuers, annual reports, industry data, and interactions with management. In addition, we also consider trade publications, media reports and other research generated by broker-dealers and independent research services and ratings agencies. In generating our research, we analyze both the credit quality of the issuer and the yield spreads among different categories of instruments and the changes in those spreads which may occur as the broad interest rate environment changes over the business cycle. We also study the technical aspects surrounding different types of preferred and debt securities and amongst issuers.

We have developed databases and analytical computer programs specifically aimed at the analysis of preferred and debt securities. The information produced from these tools is proprietary.

## Investment Strategies

We primarily offer investment strategies of investing in preferred securities, contingent capital securities and similar debt securities. Some of our institutional clients typically have more specific strategies focusing on after-tax income, and, as a result, we may focus on tax-advantaged preferred securities (e.g., securities which qualify for the dividends received deduction). Further, for some of our clients, we offer interest-rate hedging strategies which attempt to insulate the portfolio from the effects of material changes in long-term Treasury rates occurring over short periods of time. To implement this hedging strategy, we may utilize Treasury futures, options on Treasury futures, interest rate swaps and interest rate swaptions.

When appropriate, financial futures and options as well as credit derivative swaps or options thereon may also be used for similar purposes or to manage the credit risk exposure of fixed income securities.

## Risks

Risk is inherent in any investment. Investing in securities – even the most conservative of strategies – involves a number of risks, including the risk that you may receive little or no return on your investment or even that you may lose part or all of your investment. Global turbulence in financial markets and reduced liquidity in credit and fixed-income markets may negatively affect a broad range of issuers, which could have an adverse effect on the strategies we employ. Therefore, before investing you should consider carefully the following risks.

*Market risk:* The market values of securities may decline, at times sharply and unpredictably. Under normal conditions, markets generally move in cycles over time, with periods of rising prices followed by periods of declining prices. These fluctuations could be a sustained trend or a drastic movement, and the value of your investment may reflect these fluctuations.

*Preferred, Contingent Capital and Other Subordinated Securities Risk.* Preferred, contingent capital and other subordinated securities rank lower than bonds and other debt instruments in a company's capital structure and therefore will be subject to greater credit risk than those debt instruments. Distributions on some types of these securities may also be skipped or deferred by issuers without causing a default. Finally, some of these securities typically have special redemption rights that allow the issuer to redeem the security at par earlier than scheduled. If this occurs, we may be forced to reinvest in lower yielding securities.

*Trust Preferred Securities Risk.* Many preferred securities are issued by trusts or other special purpose entities established by operating companies and are not a direct obligation of an operating company. In some cases, when investing in these hybrid-preferred securities issued by trusts or other special purpose entities, you may not have recourse against the operating company in the event that the trust or other special purpose entity cannot pay the obligation and therefore, your portfolio may lose some or all of the value of its investments in the hybrid-preferred security. In addition, in the event of the bankruptcy or dissolution of such an entity, your portfolio may lose the value of some or all of its investment in the preferred security, as investors in such securities would be paid only after all payments are made to senior debt holders.

*Credit risk:* Credit risk is the risk that an issuer of a preferred or debt security will be unable or unwilling to make interest and principal payments when due and the related risk that the value of a

security may decline because of concerns about the issuer's ability or willingness to make such payments. Changes in an issuer's credit rating or the market's perception of an issuer's creditworthiness may also affect values.

*Interest Rate and Duration Risk.* Interest rate risk is the risk that securities will decline in value because of changes in market interest rates. For fixed rate securities, when market interest rates rise, the market value of such securities generally will fall. Investments in fixed rate securities with long-term maturities may experience significant price declines if long-term interest rates increase. During periods of rising interest rates, the average life of certain types of securities may be extended because of slower than expected prepayments. This may lock in a below-market yield, increase the security's duration and further reduce the value of the security. Fixed rate securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. The duration of a security will be expected to change over time with changes in market factors and time to maturity.

The interest rates payable on floating rate securities are not fixed and may fluctuate based upon changes in market rates. As short-term interest rates decline, interest payable on floating rate securities typically decreases. Alternatively, during periods of rising interest rates, interest payable on floating rate securities typically increases. Changes in interest rates on floating rate securities may lag behind changes in market rates or may have limits on the maximum increases in interest rates. The value of floating rate securities may decline if their interest rates do not rise as much, or as quickly, as interest rates in general.

Many financial instruments use or may use a floating rate based upon the London Interbank Offered Rate (LIBOR), which is being phased out by the end of 2021. There remains some uncertainty regarding the future utilization of LIBOR and the nature of any replacement rate.

*Income risk:* The income earned from your portfolio may decline because of falling market interest rates. This can result when we invest the proceeds from matured or called preferred or debt securities at market interest rates that are below the portfolio's current earnings rate.

*Liquidity risk:* We may invest in certain securities that have limited marketability. If the economy experiences a sudden downturn, it is possible that some securities you hold will not be able to be sold in a sufficiently timely manner. In addition, the valuation of your portfolio may become more difficult if objective market prices are unavailable.

*Concentration risk:* Because of the nature of the preferred securities market, we typically will invest, under normal market conditions, more than 25% of our portfolios in companies principally engaged in financial services. Financial companies include commercial banks, industrial banks, savings institutions, finance companies, diversified financial services companies, investment banking firms, securities brokerage houses, investment advisory companies, leasing companies, insurance companies and companies providing similar services.

U.S. and foreign laws and regulations require banks and bank holding companies to maintain minimum levels of capital and liquidity and to establish loan loss reserves. A bank's failure to maintain specified capital ratios may trigger dividend restrictions, suspensions on payments on subordinated debt and preferred securities, and limitations on growth. Bank regulators have broad authority in these instances and can ultimately impose sanctions, such as imposing resolution authority, conservatorship or receivership, on such non-complying banks even when these banks



continue to be solvent, thereby possibly resulting in the elimination of stockholders' equity. Unless a bank holding company has subsidiaries other than banks that generate substantial revenues, the holding company's cash flow and ability to declare dividends may be impaired severely by restrictions on the ability of its bank subsidiaries to declare dividends.

Similarly, U.S. and foreign laws and regulations require insurance companies to maintain minimum levels of capital and liquidity. An insurance company's failure to maintain these capital ratios may also trigger dividend restrictions, suspensions on payments of subordinated debt, and limitations on growth. Insurance regulators (at the state-level in the United States) have broad authority in these instances and can ultimately impose sanctions, including conservatorship or receivership, on such non-complying insurance companies even when these companies continue to be solvent, thereby possibly resulting in the elimination of shareholders' equity. In addition, insurance regulators have extensive authority in some categories of insurance of approving premium levels and setting required levels of underwriting.

Governmental fiscal and monetary policies and general economic and political conditions can affect the availability and cost of funds to financial services companies, loan demand and asset quality and thereby impact the earnings and financial condition of financial services companies. In addition, the enactment of new legislation and regulation, as well as changes in the interpretation and enforcement of existing laws and regulations, may directly affect the manner of operations and profitability of participants in the financial services sector. Downturns in a national, regional or local economy or in the general business cycle or depressed conditions in an industry, for example, may adversely affect the quality or volume of a bank's loan portfolio or an insurance company's investment portfolio, particularly if the portfolio is concentrated in the affected region, industry or market sector. From time to time, general economic conditions have adversely affected financial institutions' energy, agricultural, commercial and/or residential real estate, less-developed country, venture capital, technology, telecommunications, and highly leveraged loan portfolios.

*Contingent Capital Securities Risk.* Some income-producing securities include "loss absorption" provisions that make the securities more like equity. These securities are generally referred to as contingent capital securities or "CoCos." In one type of CoCo, the security has loss absorption characteristics whereby the liquidation value of the security may be written down to below original principal amount (even to zero) under certain circumstances. Such securities may, but are not required to, provide for circumstances under which liquidation value may be adjusted back up, such as an improvement in capitalization and/or earnings. Another type of CoCo provides for mandatory conversion of the security into common shares of the issuer under certain circumstances. An automatic write-down or conversion event can be triggered by a reduction in the capital level of the issuer, by regulatory actions or by other factors. CoCos which are subject to an automatic write-down (i.e., automatic write-down of the original principal amount, potentially to zero, and cancellation of the securities) under certain circumstances could result in losing a portion or all your investment in such securities. If a CoCo provides for mandatory conversion of the security into common shares of the issuer, and the circumstances requiring mandatory conversion occur, you could experience a reduced income rate, potentially to zero, as a result of the issuer's common shares not paying a dividend. Moreover, upon conversion into common stock, your interest in the issuer would be subordinate to the issuer's other security classes and would no longer be senior to common stock and, therefore, conversion would worsen your standing in a bankruptcy proceeding.

*Non U.S. investment risk:* Companies organized or headquartered in foreign countries or U.S. companies with significant non-U.S. operations may be subject to risks in addition to those of companies that principally operate in the United States. This increased risk is due to potential political, social and economic developments abroad, different regulatory environments and laws, potential seizure by the government of company assets, higher taxation, withholding taxes on dividends and interest, limitations on the use or transfer of portfolio assets, increased price volatility and delays in transaction settlement in some foreign markets. Other risks include the following:

- Non U.S. companies may not be subject to accounting standards or governmental supervision comparable to U.S. companies, and there may be less public information about their operations.
- Enforcing legal rights may be difficult, costly and slow in non U.S. countries and there may be particular problems enforcing claims against non U.S. governments.
- Non-U.S. markets may be less liquid and more volatile than U.S. markets.

*Securities selection risk:* Securities we select may not perform to expectations. This could result in underperformance compared to market indices.

*Inflation risk:* It is possible that the value of assets or income from the portfolio will be less in the future as inflation decreases the value of money.

*Derivatives risk:* A derivative refers to any financial investment whose value is derived, at least, in part, from the price of another security or a specified index, asset or rate. There is different, and often greater, risk involved when investing in derivatives than the risk associated with investing directly in the underlying securities or index. These risks include, but are not limited to, market risk, credit risk, leverage risk, management risk and liquidity risk. Adverse movements in the price or value of the underlying asset, index or rate can lead to significant losses, which may be magnified by certain features of the derivatives.

Derivatives can be highly complex and their use within a management strategy can require specialized skills. Especially when investing in derivatives, there can be no assurance that a given strategy will work as planned or provide the return expected. The success of our derivatives strategies will depend on our ability to assess and predict the impact of market or economic developments on the underlying asset, index or rate and the derivative itself, without the benefit of observing the performance of the derivative under all possible market conditions. Because of their complex nature, derivatives may lose liquidity in a volatile market, raising the possibility that we will not be able to sell them at a sufficient price or in a timely manner. Gains or losses from positions in a derivative instrument may be much greater than the derivative's original cost.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management. We have no information to report under this Item.

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

Flaherty & Crumrine is registered with the National Futures Associations as a commodity trading adviser – in connection with the interest rate hedging strategy we offer from time to time to some of our clients. However, it is not currently active as a commodity trading adviser.

We are also an investment adviser to the U.S. Funds and sub-adviser to DPI, which are registered U.S. investment companies and receive compensation in that capacity as outlined under Item 5 above.

## **Item 11 – Code of Ethics**

We have adopted a code of ethics under rule 204A-1 of the Investment Advisers Act of 1940. Rule 204A-1 requires registered investment advisers to establish, maintain and enforce a written code of ethics that (a) sets the standard of business conduct that the adviser requires of its employees, (b) requires employees to comply with applicable federal securities laws (including laws regarding insider trading and privacy), and (c) sets forth provisions regarding personal securities transactions by employees.

Our code of ethics sets forth specific policies and procedures for its employees to follow regarding material, non-public information and other confidential information. While we do not expect our employees to be in receipt of inside information, we require any employee receiving inside information to refrain from trading on the information and to discuss the information only with our Chief Compliance Officer to determine an appropriate course of action. Procedures are set forth to safeguard all other confidential information.

We anticipate that, in appropriate circumstances and consistent with clients' investment objectives, we will cause accounts over which we have management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which we, our affiliates and/or clients, directly or indirectly, have a position of interest. Our employees and persons associated with us are required to follow our code of ethics – including its pre-clearance requirements. Subject to satisfying this policy and applicable laws, our officers, directors and employees and their affiliates may trade for their own accounts in securities which are recommended to and/or purchased for our clients.

The code of ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (a) making decisions in the best interest of advisory clients and (b) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of our clients. In addition, the code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the code in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is monitored under the code to reasonably prevent conflicts of interest between our clients and us.

Our code of ethics also places limits on gifts that may be given or accepted by employees, and it requires compliance with all state and federal securities law.

A copy of the Code is available to clients and prospective clients upon request.

## **Item 12 – Brokerage Practices**

*Soft Dollar Practices.* It is our policy to pay directly all operating expenses such as professional fees, accounting and legal fees, insurance premiums, research and data vendors, computer programs, etc. Additionally, we use our own independent research in providing investment advisory services. Consequently, we will not enter into any soft dollar arrangement with any broker-dealer, whereby brokerage commissions on trades directed to the broker-dealer are used to purchase products and services other than execution of securities transactions.

Although certain broker-dealers may supply us with products and services other than brokerage of the type described in Section 28(e) of the Securities Exchange Act of 1934 in the ordinary course of business, we do not consider any such service in selecting broker-dealers to execute portfolio transactions, and we will always seek best execution and the availability of such products and services generally will not be contingent upon the firm committing to the broker-dealer any specific amount of business (assets in custody or trading).

*Brokerage Discretion.* Typically, we have full authority to determine broker-dealers to be utilized and commissions to be paid by our clients. We will generally seek “best net execution” in light of the circumstances involved in transactions. In selecting a broker for any transactions, we may consider a number of factors, including, for example, net price, reputation, financial strength and stability, efficiency of execution and error resolution, the size of the transaction and the market for the security.

Depending upon market conditions and the security involved, transactions can be completed on either a principal or an agency basis. Most transactions in the preferred and debt securities markets are executed on a principal basis, with a dealer acting as principal. Our trading desk is in touch with the major securities dealers and is generally aware of the prices and sizes of these dealers’ bids for and offers of securities. Each transaction reflects what we believe to be the best net execution available at that point in time. For transactions completed on an agency or “plus commission” basis, best net execution is defined to take into account both commissions paid and the prices at which transactions are executed. Variations in commissions paid from transaction to transaction reflect differences in the skill and difficulty involved in the execution of the particular order.

*Aggregation and Allocation.* In certain instances, we aggregate securities transactions and subsequently allocate the securities purchased or sold among some or all clients. Such allocations, including those resulting from partial executions, take into account each client’s specific circumstances, which include, but are not limited to, their investment objectives and strategies, investment guideline restrictions and funds available. Subject to these specific circumstances, purchases and sales of securities are allocated so that, to the best of our ability, over time all clients with similar investment objectives are treated equitably.

*Cross Trades.* In certain circumstances, the firm may engage in “cross trades,” where it buys or sells securities from one client to another, if the firm believes such transactions are appropriate based on each party’s investment objectives and guidelines, subject to applicable law and regulation. This might be done in an effort to reduce transaction costs, increase execution efficiency or minimize market impact costs. For example, in some instances a security to be sold by one client may

independently be considered appropriate for purchase by another client. In such cases, the firm may, but is not required, to cause the security to be “crossed” or transferred directly between the relevant clients at an independently determined market price and without incurring brokerage commissions, although customary custodian fees and transfer fees may be incurred. The firm may use a broker-dealer or other service provider to effect a cross trade between clients. In such circumstances, the broker-dealer or other service provider may charge a fee, including customary transfer fees, for effecting the transaction. If an investment company registered under the 1940 Act is a party to a cross transaction, the firm will only engage in the transaction if it is made pursuant to procedures adopted under Rule 17a-7 under the 1940 Act.

*Agency Cross Transactions.* Since the firm is an independent investment adviser and does not have any affiliated broker-dealer, the firm will not effect any agency cross transactions for client accounts. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

*Principal Transactions.* It is our policy that the firm will not effect any principal transactions for client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. We may, however, recommend securities to unaffiliated clients that are also currently held in affiliated client portfolios or personally held by our employees.

*Recommendations for Commodities and Derivatives Transactions.* We may recommend futures commission merchants (FCMs) to maintain accounts and provide execution services for clients in connection with futures and options positions. Also, we may recommend counterparties with which clients may enter into transactions involving interest rate or credit derivative swaps or options thereon (together with futures and options transactions, “commodity transactions”). In determining appropriate FCMs and counterparties for these transactions, in addition to the level of commissions and an evaluation of their financial responsibility, significant weight is given to the flow of market information and the greater speed and efficiency of execution which we achieve by concentrating on a relatively small number of FCMs and counterparties.

In certain instances, we may execute commodity transactions that are subsequently allocated among some or all of our clients. Such allocations, including those resulting from partial executions, must treat all clients equitably.

*Conflicts of Interest.* Flaherty & Crumrine Incorporated is an independent investment adviser and does not have any affiliated broker-dealer. As a result, all transactions are effected through third-party broker-dealers.

### **Item 13 – Review of Accounts**

Each of our portfolio managers and Chief Compliance Officer regularly reviews client accounts (on at least a monthly basis). Separately-managed institutional accounts and the U.S. and Canadian Funds (which are concentrated in fixed income securities) are managed and reviewed on a daily basis directly by our portfolio managers who also serve as traders. In addition, compliance of these

accounts with their investment guidelines is reviewed on a daily and monthly basis. Reviews for all client accounts are triggered whenever we change our opinion on broad market economic trends, or on the credit condition or prospects of individual securities.

In view of the relatively limited number of client accounts at the firm, specific clients are not assigned to a specific portfolio manager. Instead, each performs specific functions involved in the review process for all client accounts. Each client account is reviewed relative to our current investment strategies and opinions regarding individual securities, and appropriate action is determined in view of the objectives and limitations of the specific client account.

We generally deliver accounting reports to clients on a monthly basis and performance reports on a quarterly basis. For many of our clients, we also provide customized and more frequent reports as requested.

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

Except as noted below, we do not currently compensate any third party for client referrals and none of our employees are directly compensated for client solicitation. However, in accordance with applicable law, we have agreed to compensate a firm in Denmark for assistance in connection with soliciting clients in Denmark, Sweden and Norway.

Further, except for the proprietary research received from broker-dealers as described under Item 12 above, we do not receive any economic benefit from persons other than the client for providing investment advisory services to the client.

### **Item 15 – Custody**

All client portfolios are held through third-party custodians. Clients should receive at least quarterly statements from the broker-dealer, bank or other qualified custodian that holds and maintains client's investment assets. We urge you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

### **Item 16 – Investment Discretion**

We generally have discretionary authority to make the following determinations without obtaining client consent before transactions are effected:

- the securities that are to be bought or sold;
- the total amount of the securities to be bought or sold;
- the brokers through which securities are to be bought or sold; and
- the commission rates, if any, at which securities transactions are effected.

Our authority may be subject to client conditions, which, for example, might limit the portfolio's exposure to certain issuers, industries or ratings categories.

### **Item 17 – Voting Client Securities**

Generally, and except to the extent that a client otherwise instructs us in writing, we will vote (by proxy or otherwise) in all matters for which a shareholder vote is solicited by, or with respect to, issuers of securities beneficially held in the client's account in such manner as we deem appropriate in accordance with our written policies and procedures. These policies require us to vote proxies in a prudent and diligent manner intended to enhance the economic value of the client's account. However, the policies permit us to abstain from voting proxies in the event that the client's economic interest in the matter being voted upon is limited relative to the client's overall portfolio or the impact of the client's vote will not have a material effect on its outcome or on the client's economic interests.

With respect to proxies solicited from common stockholders, we typically vote in favor of management's recommendations on all routine matters (e.g., elections of directors or ratification of auditors). Other proposals will require special consideration, and we make decisions on a case-by-case basis in these situations.

Preferred stock (for this purpose, any type of equity security other than common stock) does not typically have voting rights as extensive as common stock, and consequently we have adopted different policies for the voting of these types of securities. Usually, if it has voting rights at all, preferred stock will only have voting rights in non-routine matters that require that we analyze the proposal prior to voting. In general, we will only approve such proposals where the benefits of the matter in question outweigh the costs to the preferred stockholders. Routine matters, such as elections of directors, may come before us from time to time; however, given their frequency, the firm will assess such proposals on a case-by-case basis. However, in those instances where the common shares are held by a parent company and consequently the outcome is not in question, we will not typically vote the preferred shares since the time and costs would outweigh the benefits.

Where a proxy proposal raises a material conflict between our interests and the interests of a client, we will seek to resolve the conflict. To the extent the matter is specifically covered by our proxy voting guidelines, we will vote in accordance with the policies. To the extent we have discretion to deviate from our proxy voting policies, we may disclose the conflict to the client and obtain the client's consent to our proposed vote.

Upon request, clients may obtain a copy of these policies and information on how we voted shares in their accounts.

### **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about our financial condition. We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to clients and have not been the subject of a bankruptcy proceeding.



## **Privacy Policy**

Safeguarding the nonpublic personal information of our clients is of great importance to Flaherty & Crumrine Incorporated.

We collect nonpublic personal information about our clients, which may include name, address, Social Security number, approximate income level, other tax information and bank account numbers, from the following sources:

- directly from the client.
- the client's custodian.
- the client's accountant.

We do not disclose any nonpublic personal information about our current or former clients to anyone, except as permitted or required by law. Information collected may be shared with our independent auditors. We may also share this information with our legal counsel as deemed appropriate and with regulators. We may disclose information about clients at the client's request (for example, by sending duplicate account statements to someone designated by the client such as a custodian or accountant). Finally, we may disclose this information to the independent software firm maintaining our clients' portfolio accounting and record keeping system subject to customary confidentiality undertakings.

We restrict access to nonpublic personal information about our clients to individuals requiring the information to service our clients' investment needs, and maintain safeguards to ensure the privacy of the clients' nonpublic personal information in our possession.