

## ITEM 1. COVER PAGE

# Breckinridge Capital Advisors, Inc. Firm Brochure Part 2A

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This brochure provides information about the qualifications and business practices of Breckinridge Capital Advisors, Inc. ("Breckinridge"). If you have any questions about the contents of this brochure, please contact us at 617-443-0779. 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.

Breckinridge 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 Breckinridge is also available on the SEC's website at:  
[www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



## ITEM 2. MATERIAL CHANGES

This summary of material changes reflects only those made to the Brochure since our last update on March 18, 2020.

### **Item 6: Performance Based Fees and Side-by-Side Management**

Potential conflicts associated with managing multiple client accounts simultaneously have been added to this section. While our policies and practices regarding performance fees and soft dollars have remained unchanged, we believe the addition of this information will help our clients gain a better understanding of our firm.

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

We have engaged a third party to solicit new international institutional clients on our behalf. This arrangement requires the third party to make certain disclosures, which include general agreement terms and compensation, to the solicited clients.

In addition to the above, the Brochure includes various immaterial adjustments to provide clarity and additional information.



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## ITEM 4. ADVISORY BUSINESS

Founded in 1993, Breckinridge Capital Advisors, Inc. is an investment advisor specializing in investment-grade fixed income portfolio management. Our investment management services are offered through separate accounts, which are often customized by clients. We also provide non-discretionary management services to a limited number of clients. These services include security monitoring and analysis and specific investment recommendations.

Driven by our commitment to ESG and sustainability, Breckinridge is a Massachusetts Benefit Corporation and a certified B Corp. We believe these designations help us to align our goals with our clients, employees and the communities in which we live, work and invest. Our commitment to sustainability is reflected in our investment process, daily business activities and community outreach.

Breckinridge is independently owned by its former and current employees and members of the board. Peter Coffin, the firm's founder and President is the firm's majority owner. As of December 31, 2020, Breckinridge managed over \$44 billion in assets on behalf of 16,262 clients; three of those clients with assets totaling \$35 million represented non-discretionary assets.

### Our Clients

Breckinridge manages portfolios for a wide variety of clients, including ranging from high net worth individuals to mutual funds sponsored by unaffiliated parties. Clients are commonly referred to our firm by other investment advisors and consultants (collectively, Advisors). Many of our clients use our services through wrap fee programs sponsored by unaffiliated parties. Some clients are directly sourced from institutions. Advisors and sponsors are expected to conduct their own due diligence of our firm. Each advisor and sponsor will offer all or some of Breckinridge's investment strategies to their clients.

For wrap fee programs, we enter into advisory agreements with the sponsors, not with the underlying clients. Some advisors have entered into an advisory agreement with Breckinridge, while others require Breckinridge to enter into agreements with the end client directly. Regardless of the agreement arrangements, the advisor or sponsor, not the end client, typically remains Breckinridge's primary point of contact for any client communications and account updates. Clients who access our services directly may have designated authorized individuals to act on their behalf. Any such arrangements will have been provided in either the investment management agreement or in separate written documentation. Throughout this Brochure, our references to "client" generally includes the advisor, sponsor or authorized individual.

When clients access our services through an intermediary such as another advisor or sponsor, we will not be provided with sufficient information from the intermediary to perform a suitability assessment of our services for their accounts. We rely on the intermediaries who, within their fiduciary duty, must determine whether Breckinridge and Breckinridge's services are in the client's best interests. This includes any assessment of whether a particular wrap free program is appropriate for the client. .

### Technology and Information Security

Since Breckinridge's founding, we have always pushed ourselves to innovate technologically. We believe innovation allows us to better serve our clients. This has led us to develop proprietary technology and techniques that have enabled us to manage portfolios, analyze issuers, and implement customizations for our clients. We also rely on third-party systems and data to operate and service client accounts on a daily basis. As a result, our firm and these third-party providers process, store and transmit large amounts of electronic information about our clients and their accounts, including transactions and holdings.



The dependence on technology and systems make us and our service providers susceptible to cybersecurity risks that include loss of client information or assets, privacy breaches and identity theft, loss of confidential company information, and disruption of business. These types of events can be caused by unintentional failures or deliberate attacks. Therefore, Breckinridge has policies and procedures that address information security, privacy, identity theft, business continuity and third-party service providers. These policies are reviewed regularly and revised as necessary to reflect changes in our business, the way we process, store and transmit electronic information, or other matters.

A copy of Breckinridge's information security policies and privacy notice are available upon request by contacting our compliance team at 617-443-0779 or [compliance@breckinridge.com](mailto:compliance@breckinridge.com). In addition, our privacy notice is available on our website (<https://www.breckinridge.com/privacy-notice/>).

## ITEM 5. FEES AND COMPENSATION

The maximum fee Breckinridge assesses for management of a client account is 35 basis points. Breckinridge retains full discretion to negotiate fees in consideration of asset levels, service requirements, and any other factor that Breckinridge deems relevant. Even within the same investment strategy, different clients can have different fee structures and schedules. Some client assets are aggregated for billing purposes. Clients with multiple accounts managed by Breckinridge or clients who access Breckinridge through intermediaries may receive a lower effective rate due to the combined level of assets.

Unless other arrangements are agreed upon, fees will be payable quarterly, in arrears. Breckinridge will either deduct fees directly from client custodial accounts or send an invoice to the client or Advisor directly. Client fee schedules and the way fees will be paid are explained in the advisory agreement.

The fixed income securities held in client accounts are priced daily. When Breckinridge is responsible for calculating the client account fees, the billing value does not include cash and is based on the market value, provided by an independent pricing service, of the fixed income securities on the last business day of the quarter. However, we may earn fees on cash from clients who calculate their own fees as some clients include cash in the asset values used for billing purposes. Clients are responsible for verifying that the fee has been properly calculated.

In addition to Breckinridge's advisory fees, clients bear trading costs, taxes, and any fees or expenses associated with custodial accounts, wire and electronic fund transfers, or services provided by other third-party investment advisors or managers selected by the client. These costs and expenses are not included in the advisory fee paid to Breckinridge. Clients are required to appoint their own custodians and are responsible for negotiating the terms and arrangements for the account with that custodian. As such, Breckinridge is unable to influence the transaction costs charged by the custodian to settle Breckinridge trades for their accounts.

Breckinridge acts as sub-adviser to certain mutual funds in which Breckinridge clients may be investors. Breckinridge may not be aware that such clients are also fund shareholders as this information is not routinely provided or readily available to us. Outside of a sub-advisory fee, Breckinridge receives no other compensation from these sub-advised funds. To the extent that client accounts are invested in any unaffiliated mutual funds, these funds pay a separate layer of management, commissions, trading, and administrative expenses, which are exclusive and in addition to Breckinridge's advisory fee. Breckinridge does not receive any portion of the funds' fees and expenses from these types of investments in client accounts.



Additional information on trading and custody can be found in the *Brokerage Practices* and *Custody* sections.

### **Wrap Fee Programs**

For our investment advisory services to wrap fee programs, Breckinridge receives directly from each sponsor – and not from any client whose account(s) we manage through the program – a portion of the all-inclusive, wrap fee that each client pays the sponsor. Each sponsor’s program allows its clients to receive, in exchange for a unitary, all-inclusive wrap fee, discretionary portfolio management services from portfolio managers participating in the program, assistance in choosing participating managers, trade execution and custodial services, periodic performance and other reports, and certain other related services provided by the sponsor and its affiliates.

Under each program, any brokerage commissions or other transactions fees (collectively, transaction costs) on client trades effected through the sponsor or its affiliates are generally included in the all-inclusive fee that each client pays the sponsor. Breckinridge has the authority to trade with broker dealers that are not the sponsor or its affiliates (i.e., trade away), and we will regularly exercise this authority in our pursuit of best execution. When we trade away, the client will incur any transaction costs associated with those trades in addition to the wrap fee charged by the sponsor. Therefore, clients who choose Breckinridge as a manager through a wrap fee program will incur transaction costs paid to the executing broker dealer for trading away and transaction costs already included in the wrap program fee paid to the sponsor. Wrap fee account clients should refer to the sponsor’s disclosures for more complete information on program fees and costs.

Please see the *Brokerage Practices* section for additional information on our trading practices.

### **Termination and Assignment**

Advisory agreements with clients cannot be assigned without the approval of the client. Unless otherwise agreed upon, agreements may be terminated upon thirty days prior written notice. Fees paid in advance for the current quarter will be pro-rated on a daily basis and any unused portion returned to the client. Fees paid in arrears for the current quarter will be pro-rated on a daily basis and billed to the client.

## **ITEM 6. PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Breckinridge does not have any performance fee or soft dollar arrangements, both of which can create conflicts concerning the management and trading of client accounts.

Conflicts, however, can arise with the simultaneous management of multiple accounts by Breckinridge’s investment team. Since we provide investment advisory services to clients in different strategies with varying fee schedules, our portfolio management (PM) team must allocate their time across multiple client accounts with different objectives, benchmarks, restrictions and fees. This may result in the team allocating unequal attention and time to the management of each client account. Breckinridge’s approach to the investment process is collaborative and team-based, which helps to ensure overlap in coverage and support. Because client accounts are managed on a team-basis, portfolio managers’ compensation is not tied to the performance of any single client account or strategy; rather, compensation is based on individual and overall firm performance. We also utilize proprietary portfolio management and trading systems to monitor and manage accounts. The proprietary systems enable the PMs to determine portfolio needs, sales and trade ideas across multiple client accounts with our traders’ input on valuation. The systems also enable us to complete allocations in a manner that is consistent with internal policy.



Additional information about our allocation practices can be found in the *Trade Allocation* section of Item 12.

## **ITEM 7. TYPES OF CLIENTS**

Breckinridge provides investment advisory services to individuals, high net worth individuals, trusts, estates, charitable organizations, foundations, corporations, investment companies registered under the Investment Company Act of 1940, private investment funds, Taft-Hartley plans, public funds, and other institutional investors.

Private investment funds for which Breckinridge acts as sub-adviser are not registered under the Investment Company Act and can invest in similar securities as other advisory clients. Breckinridge is not the general partner to any such fund and does not receive placement fees with respect to investments in those funds.

## **ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **Investment Strategies**

Breckinridge offers sector-focused, multi-sector and sustainable investment grade bond strategies in customized separate accounts. Strategies can be customized by benchmark, duration target, credit quality, sector weightings and values-based screens. In addition, tax efficient strategies can be customized by tax status and state specification. Unless otherwise indicated below, the minimum investment for strategies is \$500,000. Minimum investment amounts are subject to Breckinridge's discretion.

### **Multi-Sector Strategies**

#### *Government Credit Strategies*

Breckinridge's government credit strategies seek to preserve capital and to prudently improve returns by investing across U.S. Treasury, government-related and corporate sectors.

#### *Fixed Income Strategies*

Breckinridge's fixed income strategies seek to preserve capital and to prudently improve returns by investing across Treasury, government-related, corporate and securitized sectors. Subject to Breckinridge's discretion, the minimum investment for these strategies is \$10,000,000.

### **Sector-Focused Strategies**

#### *Tax Efficient Strategies*

Breckinridge's tax efficient strategies seek to preserve capital and maximize after-tax income by investing primarily in tax-exempt municipal bonds. U.S. Treasury, government-related and corporate bonds are also considered based on market environment and client's tax rate.

#### *Treasury Strategies*

Breckinridge's treasury strategies seek to match respective benchmark returns by investing in U.S. treasury securities.



### *Corporate Strategies*

Breckinridge's corporate strategies seek to preserve capital and prudently improve returns by investing primarily in corporate bonds. The investment team also has flexibility to make allocations to U.S. Treasury securities based on the market environment.

### **Sustainable Strategies**

Designed for investors who are interested in emphasizing environmental, social and governance (ESG) performance, the sustainable strategies add an additional overlay to the investment strategies described above (excluding Treasury Strategies). Breckinridge attempts to achieve each strategy's investment objectives by selectively investing in those eligible issuers with above-average ESG profiles and/or bonds that fund essential environmental, social or economic development projects. Values-based customizations, such as environmental or religious based themes, are also available.

### **Methods of Analysis**

#### **Investment Philosophy**

While Breckinridge is opportunistic in issuer selection and portfolio structure, we are grounded in our mandate of principal preservation. Our goal is to strike the right balance between risk and return, without overreaching for yield. We believe that the combination of our rigorous bottom-up credit and ESG research, seasoned traders and portfolio managers, and trading capabilities allow us to pursue our mandate and goal.

#### **Investment Process**

The overarching aim of our investment process is to provide our clients with portfolios that preserve capital while prudently improving returns. The firm's investment process combines a top-down outlook with bottom-up fundamental credit research, ESG analysis and efficient trading to best meet client needs.

#### *Top-Down*

Our top-down outlook is determined by the Investment Committee. The Committee includes representation from portfolio management, research and trading to bring a plurality of views to our outlook. The Committee meets formally once per month, with more frequent meetings and conversations held as needed based on changes in the market environment. The Committee's structure allows for discussions in the context of a process-led environment to deliberate the market impact of numerous factors that include monetary and fiscal policy, market conditions, capital flows, business cycles, credit trends and relative value across sectors. Members debate and forecast a base-case scenario and variability around this scenario for key economic variables such as GDP, inflation and interest rates, and consequently the implications for sector spreads. Our investment outlook is typically between six and eighteen months, allowing us to see through short term market volatility and invest client portfolios with long term investment goals in mind.

The output of the Committee meetings determines our macro assessment of the market. Investment themes are translated into targets for a variety of portfolio characteristics, including duration ranges, yield curve positioning and sector exposure specific to each strategy. Targets are updated into our proprietary portfolio management and trading systems for implementation by portfolio managers and traders.

#### *Bottom-Up*

While our top-down outlook and overall portfolio positioning is determined by our Investment Committee, bottom-up fundamental research drives our individual security selection decisions. Rigorous, fundamental bottom-up research and ESG analysis is paramount to our investment process. Our analysts assign internal



credit, sector risk and sustainability ratings to issuers, which are utilized by trading and portfolio management when assessing market opportunities and relative valuation. Although we invest in investment grade bonds, we do not take idiosyncratic risks for granted. In our view, the risks to investment grade bonds are asymmetric and the downside to investing in a problematic credit can be significant. Our bottom-up research is key in helping us identify risks and opportunities.

#### *Portfolio Construction*

Portfolio construction begins with overlaying the Investment Committee's parameters onto client specific objectives, risk tolerances, liquidity needs and values. The portfolio construction process melds the views of our Investment Committee and insights from the research and trading teams for final implementation by the portfolio management team. Our proprietary order management system continually runs filters and tests to review positioning in client portfolios from a variety of standpoints (e.g., duration, maturity). The system also runs daily reports to identify variances from rules set by client investment guidelines and Investment Committee targets. Portfolio managers are prompted to evaluate portfolios that are not in line with targets; this process limits the likelihood of significant variation from internal targets.

#### **Trading**

Trading is a key value-add to portfolio management at Breckinridge. Traders are charged with finding relative value across U.S. Treasury, municipal, corporate and securitized issuers. Subject to our pursuit of best execution, our trading team endeavors to find the best fit and value in the market to satisfy portfolio needs.

Traders have discretion to buy and allocate any research-approved bond that meets the requirements of portfolios as requested by the portfolio managers. Traders may also help portfolio managers with relative value trading by identifying opportunities between existing client holdings and primary and/or secondary market offerings.

#### **Client Customizations**

Customized separate accounts are a hallmark of Breckinridge. We work closely with clients to customize portfolios that appropriately align with their objectives, guidelines, and liquidity requirements. Our proprietary systems allow us to accommodate a wide range of customizations while still keeping portfolios aligned with the selected investment strategy. Portfolios can be customized to accommodate values-aligned screens. Tax-efficient portfolios can also be customized by client tax status and state specification.

Clients may submit, in writing, their customization requests to our Consultant Relations or Client Services teams. Restrictions that are outside the scope of our standard customizations must be approved by our portfolio management team. There are no set parameters that would prompt the rejection of an account. Rather, our portfolio management team's goal is to assess whether the requested restrictions will overly hinder our ability to build a diversified portfolio within the strategy the client has selected. Once the customizations are approved by the portfolio management team, the customizations will become effective at the agreed upon date between the client and Breckinridge.

#### **Tax Loss Harvesting (TLH)**

All taxable client accounts will generally be included in tax loss harvesting. When engaging in TLH, client accounts will sell bonds with unrealized losses and reinvest the proceeds in another security that is similar. The account may reinvest the proceeds at a higher or lower price than the sale price of the original security. When harvesting losses, we expect to reinvest the proceeds unless instructed otherwise (e.g., hold in cash).



To facilitate TLH, Breckinridge will use cross transactions to reallocate securities among client accounts. The TLH cross trades strategy is set by our Investment Committee during their regular meetings throughout the year and implemented by the portfolio management team and the traders. Clients may opt out of tax loss harvesting, cross transactions or both at any time by providing written notification to us. Refer to the *Risk Considerations* section below and Item 12 for more information on cross trades and tax loss harvesting.

For clients who opt out of tax loss cross transactions, our portfolio management team has full discretion to determine to harvest losses in client accounts. Clients may submit written requests, which will be reviewed by our portfolio management team to determine the appropriateness of harvesting losses against reinvestment. They will assess the amount of tax losses to be taken, the amount of losses available to realize, and the amount of reinvesting required. While we attempt to accommodate all requests, the portfolio management team could determine that the harvesting of losses is not appropriate. Should this be the case, we will notify the client. Under normal market conditions, the deadline for TLH requests is November 30. Requests received after the deadline will be processed on a best efforts basis.

### Risk Considerations and Definitions

All investments involve risk of loss that clients should be prepared to bear. Risks will vary based on the investment strategy and the specific securities held. The table below highlights the material risks associated with each investment strategy.

| <i>Risks</i>             | <i>Tax Efficient<sup>^</sup></i> | <i>Treasury</i> | <i>Government Credit<sup>^</sup></i> | <i>Fixed Income<sup>^</sup></i> | <i>Corporate<sup>^</sup></i> |
|--------------------------|----------------------------------|-----------------|--------------------------------------|---------------------------------|------------------------------|
| Call Risk                | x                                |                 | x                                    | x                               | x                            |
| Credit Risk              | x                                |                 | x                                    | x                               | x                            |
| ESG Risk                 | x                                |                 | x                                    | x                               | x                            |
| Extension Risk           |                                  |                 |                                      | x                               |                              |
| Interest Rate Risk       | x                                | x               | x                                    | x                               | x                            |
| Liquidity Risk           | x                                |                 | x                                    | x                               | x                            |
| Market Risk              | x                                | x               | x                                    | x                               | x                            |
| Prepayment Risk          |                                  |                 |                                      | x                               |                              |
| Reinvestment Risk        | x                                | x               | x                                    | x                               | x                            |
| Sector/Region Risk       | x                                |                 | x                                    | x                               | x                            |
| Tax Loss Harvesting Risk | x                                |                 |                                      |                                 |                              |
| Tax Liability Risk       | x                                |                 |                                      |                                 |                              |

<sup>^</sup>The risks designated for this strategy are the same for the sustainable version of the strategy.



*Call Risk:* Some bonds give the issuer the option to redeem the bond before its maturity date. If an issuer exercises this option during a time of declining interest rates, the proceeds from the bond may have to be reinvested in an investment offering a lower yield, and may not benefit from an increase in value as a result of declining rates. Callable bonds also are subject to increased price fluctuations during periods of market illiquidity or rising interest rates. Finally, the capital appreciation potential of a bond will be reduced because the price of a callable bond may not rise much above the price at which the issuer may call the bond.

*Credit Risk:* The risk of loss of principal due to the borrower's failure to repay timely principal and interest. This may cause the price of the bond to decline and limit trading liquidity. For corporate bonds, company default can reduce income and capital value of a corporate debt security. Moreover, market expectations regarding economic conditions and the likely number of corporate defaults may impact the value of these securities. For municipal bonds, issues such as legislative changes, litigation, business and political conditions relating to a particular municipal project, municipality, state or territory, and fiscal challenges can impact the value. For asset-backed bonds, there is the possibility that recoveries in the underlying collateral may not be available to support the payments on these securities.

*ESG Risk:* Breckinridge integrates environmental, social and governance (ESG) criteria in its research processes. Breckinridge believes that the assessment of ESG risk can improve security assessments. However, there is no guarantee that integrating ESG analysis will provide improved risk-adjusted returns or lower market volatility over any specific time period. Additionally, investment strategies that utilize ESG criteria may not provide better risk-adjusted returns than those strategies that do not use the same criteria.

*Extension Risk:* The risk associated with the delayed repayment of principal on a fixed income security. When principal repayment is delayed, value of the security may decline as the bonds duration may increase and therefore experience greater interest rate risk. This risk is especially common with mortgage-backed securities during periods of rising interest rates.

*Interest Rate Risk:* Prices of fixed income securities tend to move inversely with changes in interest rates. As interest rates rise, bond prices typically fall and vice versa. The longer the effective maturity and duration of a strategy's portfolio, the more the performance of the investment is likely to react to interest rates.

*Liquidity Risk:* Liquidity risk exists when particular investments are difficult to purchase or sell in a timely manner or at a desired price, and may be particularly pronounced for long-term investments. This risk may increase during volatile or adverse market and economic conditions. Clients who terminate their relationships with Breckinridge during these types of events may be forced to sell their securities at significantly reduced prices. In addition, the lack of an active trading market and/or volatile market conditions can make it difficult to obtain accurate prices or valuations for certain securities.

*Market Risk:* Prices of securities may become more volatile due to general market conditions that are not specifically related to a particular issuer, such as adverse economic conditions or outlooks, adverse investor sentiment, changes in the outlook for corporate earnings, or changes in interest rates. The markets can also be significantly impacted by unpredictable events such as environmental or natural disasters or pandemics. These types of events may significantly reduce liquidity and marketability for certain securities, including bonds. When liquidity and marketability are reduced, it may be difficult to purchase and sell



securities at desired prices or times. In such cases, clients may not achieve their intended level of exposure to certain sectors at favorable prices or when desired.

*Prepayment Risk:* The risk associated with the early repayment of principal on a fixed income security. When principal is returned early, future interest payments will not be paid. The proceeds from the repayment may be reinvested in securities at a lower, prevailing rate. This risk is especially common with mortgage-backed securities during periods of falling interest rates.

*Reinvestment Risk:* The risk that future cash flows, either coupons or the final return of principal, will need to be reinvested in lower-yielding securities.

*Sector/Region Risk:* The risk that the strategy's concentration in the bonds in a specific sector or region will cause the strategy to be more exposed to the price movements of issuers and developments in that sector or region. Portfolios with state or region customizations will be more sensitive to the events that affect that state's economy and stability and may have higher credit risk exposure, especially if the percentage of assets dedicated to the state is invested in fewer issuers.

*Tax Loss Harvesting Risk:* The effectiveness of a tax loss harvesting strategy is largely dependent on each client's entire tax and investment profile, including investments made outside of Breckinridge's advisory services. As such, there is a risk that the strategy used to reduce the tax liability of the client is not the most effective for every client. To the extent that a client's custodian uses a different cost basis or tax lot accounting, tax efficiencies may be greater or lower than Breckinridge's estimates. Tax loss harvesting may generate a higher number of trades in an account due to our attempt to capture losses. This can mean higher overall transaction costs to clients. Further, a client account may repurchase a bond at a higher or lower price than at which the original bond was sold.

Cross transactions will be used to facilitate tax loss harvesting in most cases. When using cross transactions for tax loss harvesting, participating client accounts gain exposure to the tax-loss harvested bonds received from other accounts. While Breckinridge generally selects bonds that, in its best judgement, will not change significantly in price, bonds nevertheless are subject to fluctuations in price, and the bonds received may go up or down in value. Please see *Cross Transactions* under Item 12 for additional information.

Federal and local tax laws and rates can change at any time; changes to tax laws and rates can impact tax consequences for clients. Further, the Internal Revenue Service (IRS) and other taxing authorities have set certain limitations and restrictions on tax loss harvesting. The tax consequences of Breckinridge's tax loss strategy may be challenged by the IRS. Clients should consult with their tax professionals regarding tax loss harvesting strategies and associated consequences.

*Tax Liability Risk:* The risk that the distributions of municipal securities become taxable to the investor due to noncompliant conduct by the municipal bond issuer or changes to federal and state laws. These adverse actions would likely negatively impact the prices of the securities.

## **ITEM 9. DISCIPLINARY INFORMATION**

Breckinridge and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.



## **ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Breckinridge and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

## **ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

Breckinridge has adopted a Code of Ethics (Code) for all employees. It sets forth the highest standards of ethical conduct and fiduciary duties owed to our clients. The Code includes, among other things, policies and procedures relating to personal trading. All employees must acknowledge the terms of the Code, as a stand-alone document or as part of the firm's compliance manual, initially upon hire and annually thereafter.

The Code is designed to assure that personal securities transactions, activities and interests of Breckinridge's employees will not interfere with: (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest in their own accounts. Under the Code, certain classes of securities have been designated as exempt transactions, based on the determination that these would materially not interfere with the best interests of Breckinridge's clients.

As a general rule, Breckinridge prohibits employees from investing in securities that would be eligible for client portfolios. However, Breckinridge anticipates that, in limited circumstances, it will permit an employee to invest in securities that may be recommended for (or is currently held in) client accounts. Such personal transactions, as well as other personal trading activity, must satisfy the Code and applicable laws. The Code requires preclearance on certain transactions, at least quarterly reports on such transactions, and a list of investment accounts and holdings on an annual basis. Nonetheless, allowing employees to invest in the same securities as clients creates a possibility that employees may benefit from market activity by a client in a security held by an employee. Employee trading is monitored regularly. A copy of Breckinridge's Code is available to any client or prospective client upon request.

## **ITEM 12. BROKERAGE PRACTICES**

### **Broker Selection**

Breckinridge invests solely in fixed income securities, which are traded in dealer markets. In selecting dealers, Breckinridge's guiding principle is to seek the best overall execution for client transactions. We recognize that the analysis of execution quality involves a number of factors, both qualitative and quantitative.

Since the markets in which we trade can be inefficient, we utilize the widest possible window of dealer access, including bid wanted platforms, in our pursuit of best execution. Client-imposed account restrictions that limit our means to select dealers could impact our ability to seek best execution on trades in those accounts.

Breckinridge considers a number of factors, including, without limitation, the actual handling of the order, the ability of the dealer to settle the trade promptly and accurately, Breckinridge's past experience with similar trades, the dealer's expertise in the market, and other factors that may be unique to a particular order. In recognition of the value of these qualitative factors, Breckinridge may cause clients to pay



markups or markdowns that are higher than the lowest cost that might otherwise be available for any given trade.

When we believe it is appropriate, we will use bid wanted platforms when soliciting bids for bonds being sold. We believe the use of bid wanted platforms expands the number of dealers alerted. As a result, we can obtain more responses to help ensure that we will receive an acceptable bid.

Breckinridge uses dealers that have other business relationships with us. Some dealers or their affiliates sponsor or maintain programs that refer client accounts to us. We also may purchase bonds issued by these dealers or their affiliates in our client accounts, unless such transactions are restricted by the client. These relationships pose the potential for conflicts when selecting dealers for execution since there is an incentive for Breckinridge to select these dealers over those without client accounts under our management. We manage these potential conflicts by segregating responsibilities and oversight.

Our trading team is overseen by our portfolio management team and Chief Investment Officer. Business development and client servicing fall under our Consultant Relations and Operations teams, which are managed by the Head of Consultant Relations and Chief Operating Officer, respectively. Further, traders are not permitted to consult with the Consultant Relations team on dealer selections. We also conduct periodic reviews of trade execution and trading partners to ensure we are meeting our best execution objectives.

#### **Directed Brokerage Arrangements**

Breckinridge typically will not accept directed broker dealer arrangements unless we have the ability to trade away. On occasion, we will accept client direction when a client funds a new account with securities that we typically do not cover or trade. Under such circumstances, we may rely on the client to direct the trades to a specific broker dealer. These directed trades are treated as non-discretionary trades and are not evaluated for execution quality. Clients may also not be receiving the most favorable execution and may be paying higher transaction costs or execution prices when directing trades to a particular dealer. Please refer to the *Client Transferred Securities* section for more information, including the requirements, on funding new accounts with such securities.

#### **Research and Soft Dollar Benefits**

Breckinridge receives sell-side research from broker dealers, including market indices, that is not available to the general public. Breckinridge does not direct trades to obtain this research and has a policy to not enter into any soft dollar arrangements. To the extent that Breckinridge receives this research, the research will be used to facilitate the management of all client accounts.

#### **Trade Orders and Aggregation**

Trade orders, or portfolio needs, originate from the portfolio management team. Our traders also can identify bonds that represent a buy opportunity but do not fit an existing need. In such instances, the portfolio management team must approve the opportunity prior to the trade being executed. Trade orders are communicated to the traders via our proprietary systems.

For sell orders, the portfolio management team will provide traders with the participating portfolios, specific securities and the number of bonds. If multiple client portfolios are selling the same security, we will try to aggregate the sales into one block trade and execute the trade with one or more dealers. Each participating client account in the same order will receive the same execution price for the trade.



Although we will use best efforts to aggregate buy orders, the manner in which we trade our accounts is not suitable for aggregation in many cases. We will consider aggregation for purchase needs from across multiple client accounts if the purchased bond will fit the needs of multiple portfolios or the same bond is being purchased across multiple portfolios.

Our ability to aggregate orders also will be limited by certain client account restrictions such as dealer requirements, minimum transaction sizes or other operational rules. Such limitations will require the account to be traded separately from the aggregate order. Further, market conditions and liquidity can limit our ability to aggregate trade orders.

Trades executed separately may obtain different prices than the prices obtained from an aggregated order. Aggregating orders may allow Breckinridge to achieve lower transaction costs and more effective execution for orders than would be the case if each individual client order were placed separately with one or several dealers. Clients may also be able to achieve lower trade execution prices as a result of this practice.

### **Trade Allocation**

Breckinridge seeks to allocate investment opportunities among clients in a fair and equitable manner and in conformity with each clients' stated investment objectives, guidelines and applicable restrictions. We have implemented policies and procedures that help ensure allocations do not intentionally favor, or otherwise advantage or disadvantage, one client or group of clients over another. Neither account performance nor advisory fees is ever a factor in trade allocations.

When a portfolio has been identified as having a need, it will be assigned an investment schedule by our trading/portfolio management system. The schedules consider many factors including client guidelines, account size, and types of bonds required to fulfill the need. Generally, the further away a portfolio is from meeting its target investment schedule, the higher the portfolio will be on the allocation priority list. Portfolio managers and traders have discretion to change the priority in order to accommodate client directives, minimum trade sizes, suitability of the bonds, and other such factors. When prioritization order changes, a client account that is lower on the priority list could receive an allocation before an account that is higher on the priority list. Any deviations from the standard allocation process will be documented by the investment management team.

Given the differences in the asset classes in which we invest, we will utilize the following methods for allocation.

### **Municipal Bonds**

Once bonds are purchased, the portfolio managers or traders use our proprietary rules-based system (coded with each account's restrictions, limitations, etc.) to allocate the bonds to eligible portfolios. To the extent that the number of bonds is insufficient to allocate to all eligible portfolios, portfolio managers and traders will endeavor to first allocate bonds to those portfolios higher on the priority list.

If traders identify bonds that represent an opportunity but do not fit an existing need, the portfolio management team may choose to take advantage of the opportunity by either amending an existing need or selecting other portfolios that are eligible for the bonds. When allocating such opportunities, the portfolio managers or traders give priority to the eligible portfolios that were originally deemed as having a need. Any unallocated bonds thereafter will be allocated to other eligible portfolios that are furthest away from the portfolio's strategy targets that are set by the Investment Committee.



## All Other Bonds

Trade orders for the same bond are aggregated (as described under *Trade Orders and Aggregation* in this section) and communicated to the trader. The order will include the security name/identifier, the participating strategy and portfolios, the target position for each portfolio and the total amount of bonds needed to reach the target weight across all participating portfolios.

Traders will seek to fill orders with a single trade, but there will be instances where an order will take more than one trade to complete. In the case where we can source only a partial amount of bonds, we will seek to allocate pro-rata across the participating portfolios. Pro-rata allocations are subject to minimum lot sizes.

If a pro-rated allocation will cause a portfolio to receive bonds below the minimum lot size, the portfolio will not be given an allocation. Any bonds remaining from these exclusions will be reallocated to portfolios that received the lowest or no allocation, prioritized by their internal account number (lowest to highest). When allocating remaining bonds, each participating portfolio will receive no less than one bond. Once a portfolio has received bonds, it will move to the end of the line.

In the event that the amount of bonds purchased does not meet our internal pro-rata de minimis for the trade order, we will prioritize the participating portfolios by internal account number (lowest to highest) and allocate the bonds to each portfolio, up to its full target weight, until all the bonds have been allocated.

Portfolios that receive an allocation through the queue process (i.e., prioritization by internal account number), even if the allocation does not complete the target weight, will be deemed to have received an allocation and will move to the end of the line. Traders will continue to track and work on filling the remainder of the order until the order has been filled or cancelled by a portfolio manager.

Since a single trade order may take multiple transactions to complete, the number of transactions per order can increase if there is insufficient liquidity in the bond, the number of execution venues is limited, or the aggregate order is large. More transactions can result in higher overall transaction costs for clients as some client custodians will assess a per trade ticket fee and/or other fees related to custody or trade settlement. With increased trading volume, these charges and fees will increase. If custodian charges apply, smaller accounts could be proportionally impacted by these costs more than larger accounts. Transaction costs, custody fees, trade ticket charges and other related fees are not included in the advisory fee paid to Breckinridge. Additional information on fees can be found in the *Compensation and Fees* section.

Under normal market conditions, we expect to use pro-rata for securities that are not municipal bonds. In the event that the investment team decides that pro-rata will not be the most appropriate allocation method, they will document the reason for the deviation in the trading system and allocate the bonds using the investment schedule method described in this section.

## Investing New Accounts

Newly funded accounts are invested in accordance with the same allocation processes described in this section. That is, the account will be assigned an investment schedule and will be allocated bonds based on the allocation methods described above. Depending on the account size, funding type (e.g., cash, securities), and client guidelines, a new account may take up to 90 days to become fully invested.



### **New Issues and Secondary Offerings**

When the portfolio management team decides to participate in a new issue or secondary offering of bonds, they will communicate the order to the traders. Portfolios are reviewed and tested for suitability (i.e., will not breach client guidelines). Once eligible portfolios have been identified, the portfolio managers will review the list of portfolios to determine the total number of bonds needed. Traders then place the aggregated order with the dealer. Once the order has been filled, the bonds are allocated in accordance with the priority set by the allocation methods described in the *Trade Allocation* section above.

### **Client Transferred Securities**

Often, clients will fund accounts with securities. Breckinridge does not routinely accept securities in which we do not typically invest or cover. Prior to accepting any security transfers, our portfolio management team will review the securities, and approve those we will accept. The portfolio management team will determine whether to liquidate or to hold the transferred securities.

Should a client ask Breckinridge to execute transactions in securities that we do not cover, we will consider such requests on a case-by-case basis. If we agree to execute the transactions, we will treat such transactions as non-discretionary trades and will not evaluate the execution quality. They are completed as a courtesy to the client, and the client will bear all associated costs. Depending on the type of security that is being transferred into the account, Breckinridge will either use the dealer affiliate of the client's custodian to execute the trades or rely on the client to direct the trades to a specific dealer. New assets will not be considered managed by Breckinridge until such trades are completed.

### **Cross Transactions**

As part of our portfolio management process, we will identify buy and sell orders in the same or similar security. In these cases, we will consider cross trades between client accounts. A cross transaction occurs when Breckinridge causes one client to sell a bond to another client in an arms-length transaction. Not all clients participate in cross transactions. Breckinridge has a general prohibition on executing cross trades in accounts subject to ERISA or the Investment Company Act of 1940. Clients also may opt-out of cross trades at any time by providing written notification to us. Accounts excluded from cross trading may not: (i) receive the benefit of lower transaction costs of doing a cross trade versus trading in the open market, and (ii) receive the same price as clients participating in cross transactions.

We believe cross trades can be beneficial to both clients by potentially reducing transaction costs and market impact. However, the use of cross trades could result in more favorable treatment to one client over the other. Also, the use of cross trades creates a conflict as we are advising clients on both sides of the transaction. To help ensure we are meeting our fiduciary obligations for both the selling and buying client, we have established specific conditions that must be met when executing cross transactions. In addition, cross transactions are subject to best execution evaluations.

We only executes cross trades when all the following conditions are met:

- A good faith determination has been made that the trades are beneficial to both parties.
- The trades adhere to applicable client contractual restrictions and limitations, investment objectives and guidelines for those client accounts involved in the cross.
- The trades adhere to applicable trading and trade allocation policies.
- The trades are consistent with applicable federal and securities laws.
- Transaction prices reflect fair market value and are based on prices provided by independent third party services.
- The trades are processed through broker-dealers not affiliated with Breckinridge.



To determine the price at which we will effect cross trades, we will apply a concession (i.e., discount) on the evaluated price provided by a third-party pricing service. The concession is determined by size and maturity. Since market prices are based on block transactions (\$1 million or more in size), the concession is adjusted to reflect odd-lot sizes (below \$1 million). Concessions also are adjusted for maturity as it is typical for concessions to increase or decrease with the length of the bond's maturity. The shorter the maturity, the less of a concession placed on the market price. Concessions are reviewed by our trading and portfolio management team on a monthly basis and adjusted as necessary. This pricing process does not apply to those cross transactions executed for tax loss realization, which is described in the next section.

Breckinridge does not pay or receive any additional compensation, commission, or fee for engaging in cross trades, but the dealer will charge routine fees to effect the transactions. These fees are deducted from the proceeds of the respective selling client accounts after the trades have been allocated.

### **Cross Trades for Tax Loss Realization**

Breckinridge has implemented a program intended to allow for the realization of tax losses using cross transactions between client accounts. Bonds being considered for tax loss crossing must have losses greater than, or equal to, the threshold set by our Investment Committee. Each cross candidate is reviewed and assessed to ensure it is appropriate for both clients. This review includes, but not limited to, issuer, maturity, call, rating, and coupon. In all cases, the issuers in the cross trade must be different and the transaction must be in compliance with applicable account restrictions and guidelines.

The trades are aggregated by CUSIPs and executed via a third-party dealer at an evaluated price provided by an independent third-party pricing service. To facilitate these trades, the dealer will charge a fee which is incurred by the client account purchasing the security. Breckinridge does not pay or receive any additional compensation, commission or fee for executing cross trades.

When crossing at an evaluated price, there is no guarantee that the selling or purchasing client will receive the best prices available for that day. However, we believe that the evaluated price is reasonable for both buyer and seller, and we take steps to ensure the evaluated price is representative of fair market value. As part of our tax loss harvest cross process, our traders will review each transaction and determine whether the evaluated price is fair market value. If they determine it is not, the cross transaction will not be executed. In addition, cross trades for tax loss harvesting are subject to the same best execution evaluation as other client trades. While we take steps to ensure that cross trades are beneficial to both parties, cross trades could result in more favorable treatment of one client over the other.

Breckinridge generally uses highest in/first out ("HIFO") accounting in determining cost basis for tax loss harvesting. Client custodians may use a different tax lot/cost basis accounting methodology, which could cause discrepancies in the tax efficiencies estimated by Breckinridge.

Please refer to the *Investment Process* and *Risk Considerations* sections for additional information on tax loss harvesting and cross trades.

### **Trade Errors**

Breckinridge strives to resolve trade errors as soon as reasonably practicable. Under no circumstances will a client bear the cost of an error caused by Breckinridge. It is Breckinridge's intention to make effected client accounts whole when a trade error caused by us results in losses in client accounts. As such, trade error corrections that result in a gain to the client account is retained by the client, and those resulting in a loss to the client account is reimbursed by Breckinridge. In cases where a trade error had no impact to any



client account, we will move the trade to an error account where we will bear any losses incurred from the error, retain the gains to offset future error amounts or donate the gains to charity.

On occasion, the treatment of errors, including any gains or losses, will be dictated by the client's custodian, primary advisor or program sponsor in accordance with their error and reimbursement policies. In such instances, Breckinridge will have limited control or authorization over the processing of errors and will comply with the third party's policies and instructions.

### **ITEM 13. REVIEW OF ACCOUNTS**

All accounts are continually monitored, via our proprietary portfolio management systems, for compliance with rules, targets (e.g., yield curve positioning, sector exposures and asset type weightings), and tolerances set by the Investment Committee and by clients. Our portfolio management team is responsible for reviewing client accounts and addressing alerts generated by the portfolio management system. Client accounts are reconciled daily with custodial account records.

Clients typically receive quarterly reports, produced by Breckinridge, that include portfolio holdings, market values, and overall portfolio structure (e.g., ratings, maturity, duration). All client reporting is provided via a secured online portal. Clients who are unable to access their online reports can contact our client services team for assistance ([clientservices@breckinridge.com](mailto:clientservices@breckinridge.com)).

### **ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION**

New clients are typically referred to our firm through third party advisors. Breckinridge does not compensate these advisors, directly or indirectly, for their referrals. However, we have entered into an arrangement with a third party to solicit new international institutional business on behalf of the firm. In this arrangement, we pay the third party a monthly fixed retainer fee and a percentage of the total advisory fees we receive from the solicited clients. Since the solicitor receives an economic benefit from their referrals, potential conflicts of interest can arise with this arrangement. In order to address these conflicts, we require the solicitor to provide disclosures that explain the general terms and conditions of the arrangement, including the compensation the solicitor receives, to solicited clients.

### **ITEM 15. CUSTODY**

Breckinridge can debit advisory fees from certain client accounts. For this reason, Breckinridge is considered to have custody of client assets. However, all client assets are held by unaffiliated qualified custodians appointed by the client. Breckinridge is not a party to the custodial agreements between clients and their custodians. In most cases, the material terms and conditions of custodial agreements, including any specific reporting instructions, are unknown to Breckinridge. Custodians usually send statements directly to the account owners on at least a quarterly basis. Clients should carefully review these statements and compare these statements to any account information provided by Breckinridge. Clients who do not receive at least quarterly statements from their custodian should promptly contact their advisor, custodian or Breckinridge.

Absent an existing custodial relationship, Breckinridge may assist a client in developing a relationship with a custodian with whom Breckinridge has an existing relationship. Clients are solely responsible for conducting their own due diligence on the custodian prior to engaging their services. While there is no direct link with the investment advice given, economic benefits may be received which would not be received if Breckinridge did not assist with the placement of such client assets at the selected custodian.



These benefits include: receipt of duplicate client confirmations and bundled duplicate statements; access to trading desks serving institutional managers exclusively; ability to have investment advisory fees deducted directly from client accounts; receipt of compliance publications; ability to view account balances and activity online; etc. The benefits received may or may not depend upon the amount of assets custodied. To the extent that Breckinridge receives these benefits, the benefits may be used to facilitate the management of not only the client accounts responsible for generating the benefits, but all client accounts. In no case does Breckinridge receive any additional fees (outside of the agreed upon advisory fee) from the client or the custodian for this assistance.

## **ITEM 16. INVESTMENT DISCRETION**

Breckinridge has been granted the authority by a majority of its clients to determine, without specific consent, the securities to be bought or sold, the amounts of those securities, and the broker dealers utilized to effect those trades. Such discretion and any limitations to such discretion are received prior to the inception of the client account. Discretion is typically detailed in the advisory agreement or other written documentation. Clients may also amend such restrictions/limitations to their accounts at any time with appropriate notification to and approval by Breckinridge.

## **ITEM 17. VOTING CLIENT SECURITIES**

Proxy ballots are rarely issued for fixed income securities. As such, we do not anticipate any proxy voting activity in our client accounts. However, Breckinridge will accept authority to vote proxies on behalf of clients. Our policy is to vote client proxies in the best interest of our clients. Breckinridge will consider both the short and long-term implications of the proposal to be voted on when considering the optimal vote. Breckinridge will vote proxies for only those fixed income securities that we purchased into the client account, and we will not vote any proxy ballots received after a client has terminated their relationship with us.

Since Breckinridge is solely focused on providing investment advisory services, it is unlikely that a material conflict of interest will arise in connection with proxy voting. Nevertheless, if Breckinridge determines that there is a material conflict of interest in voting a proxy (e.g., an employee of Breckinridge may personally benefit if the proxy is voted in a certain direction), Breckinridge will engage a competent third party, at our expense, who will determine the vote that will be in the best interest of clients. As an added protection, the third party's decision is binding.

As a matter of policy, Breckinridge will not reveal or disclose how it has voted (or intends to vote) on a particular proxy matter to unrelated third parties such as solicitors. All employees are prohibited from accepting any remuneration in the solicitation of proxies. A copy of our proxy policy and procedures is available, free of charge, upon request.

### **Class Actions and Other Legal Proceedings**

Breckinridge will not act or advise on any class action claims or legal proceedings pertaining to securities held or formerly held in accounts of clients or former clients.

## **ITEM 18. FINANCIAL INFORMATION**

Breckinridge has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.