



DAVIDSON
INVESTMENT ADVISORS

Part 2A of Form ADV:
Firm Brochure

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December 24, 2018

This firm brochure provides information about the qualifications and business practices of Davidson Investment Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at 800-332-0529 or DIAMarketing@dadco.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. Registration as an investment adviser with the Securities and Exchange Commission does not imply any specific level of skill or training.

Additional information about Davidson Investment Advisors, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov. You can search this site by our firm's CRD number, which is 110552.

Item 2 Material Changes

The Securities and Exchange Commission (“SEC”) adopted “Amendments to Form ADV” in July, 2010. This Firm Brochure (“Brochure”) is our disclosure document prepared according to the SEC’s requirements and rules. This Brochure dated December 24, 2018 contains the following material change from the last annual update, the December 21, 2017 Brochure.

- Robert Kern, CFA resigned as co-Portfolio Manager of the Intermediate Taxable Fixed Income strategy effective April 20, 2018. Andrew Elofson and Edward Crotty, CFA have retained their roles as co-Portfolio Managers of the strategy. Additionally, Michael P. Kubas, CFA, has joined Andrew and Ed as a third co-Portfolio Manager of the strategy. Mike has over 19 years of investment experience, and has been a member of our investment team for nearly 13 years, most recently overseeing clients’ custom and tax-sensitive portfolios.
- Effective January 1, 2019, Davidson Investment Advisors will discontinue usage of the name SeaCap, a division of Davidson Investment Advisors. The name SeaCap will continue to be used in relation to the Intermediate Municipal Fixed Income strategy. Please see Item 8 for further information on this strategy.

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Item 4 Advisory Business

Davidson Investment Advisors, Inc. ("Davidson Investment Advisors" or "Davidson" or "Firm") is a SEC-registered investment adviser. The purpose of this Firm Brochure ("Brochure") is to describe and disclose the services, fees, potential conflicts of interest, and other necessary information clients should consider prior to becoming a client. The information contained herein is current as of the date of this Brochure and is subject to change at Davidson's discretion. Please retain this Brochure for your records.

Davidson Investment Advisors is wholly owned by D.A. Davidson Companies, a financial services holding company. Davidson Investment Advisors has been conducting business since 1975. Its headquarters are in Great Falls, Montana with additional offices in Seattle, Washington.

TYPES OF ADVISORY SERVICES

The firm offers professional portfolio management to individuals and institutions desiring investments in equity and fixed income products. The advisory services offered by Davidson generally include portfolio management, investment advice, consulting services, performance reporting, and related account services.

The firm primarily manages client portfolios with full investment discretion and considers individual investors' needs when recommending an investment strategy to its clients. Davidson offers four primary investment strategies: Equity Income, Multi-Cap Equity, Intermediate Taxable Fixed Income, and SeaCap Intermediate Municipal Fixed Income. In addition, Davidson offers custom portfolio management and asset allocation services for high net worth and institutional clients.

Subject to the agreement with Davidson, a client may impose reasonable restrictions on the securities or types of securities held in the client's account. Please see Item 13 – Review of Accounts - for more information.

The investment strategies discussed in this Brochure may not be appropriate for all clients. Davidson will only select or recommend those strategies it believes to be suitable for a particular client.

Important Note about Wrap Fee Programs.

Davidson participates in wrap fee programs sponsored and administrated by D.A. Davidson & Co., a related person and broker-dealer, and unaffiliated parties (the "Sponsors"). As compensation for its services, Davidson Investment Advisors receives management fees based upon the total market value of all assets according to the fee schedules of each separate wrap fee program. If a client is participating in such a program, the client will receive a copy of the Sponsor's brochure for a full description of the services provided and fees charged by the Sponsors.

Davidson also sponsors and acts as the portfolio manager for a wrap program. For further information please refer to the Davidson Investment Advisors Wrap Program brochure.

Important Note about Other Advisory

Services. Davidson Investment Advisors provides model portfolio recommendations to other investment advisers. Services and fees for these arrangements will be negotiated.

Davidson Investment Advisors acts as investment adviser to the Davidson Multi-Cap Equity Fund (DFMAX and DF MIX), which is a series of the Adviser Series Trust ("Trust"), and registered under the Investment Company Act of 1940 as an open-end management investment company. U.S. Bancorp Fund Services, LLC acts as the Fund's administrator and provides fund accounting and transfer

agency services.

AMOUNT OF MANAGED ASSETS

As of September 30, 2018, Davidson managed \$2,004,251,947 in assets on a discretionary basis. Davidson does not manage any assets on a non-discretionary basis. Additionally, Davidson provides several investment strategies via a model-based solution to other investment advisers. As the model portfolio provider, Davidson monitors and updates the portfolio; investment advisors then implement the model portfolio for their clients and adjust the model portfolio as recommended by Davidson. Davidson does not have any trading authority over the clients' assets. As of September 30, 2018, Davidson's model-based assets totaled \$254.3 million, which is not included on the Firm's ADV Part 1.

Item 5 Fees and Compensation

DESCRIPTION

A client's investment management agreement will set forth the actual compensation the client will pay to Davidson. In most instances, a client pays Davidson an ongoing fee based on the market value of the assets in the account on the last day of the preceding quarter. Davidson does not have one standard annual fee schedule that is applicable across all strategies but has a fee schedule per strategy and account type. Advisory fees are negotiable. Below are typical strategy-specific fee schedules:

Equity Income Strategy:

<u>Value of assets</u>	<u>Annual Fee</u>
0 - \$10m	0.50%
Above \$10m	negotiable

Multi-Cap Equity Strategy:

<u>Value of assets</u>	<u>Annual Fee</u>
0 - \$10m	0.65%
Above \$10m	negotiable

Intermediate Taxable Fixed Income Strategy:

<u>Value of assets</u>	<u>Annual Fee</u>
0 - \$10m	0.35%
Above \$10m	negotiable

SeaCap Intermediate Municipal Fixed Income Strategy:

<u>Value of assets</u>	<u>Annual Fee</u>
0 - \$10m	0.25%
Above \$10m	negotiable

Fees for custom portfolio management solutions, which may include asset allocation services, are negotiable.

ADDITIONAL FEE INFORMATION

How Fees are charged. Fees are generally charged quarterly, in advance, based on the market value of assets in the account (including cash and cash-equivalents) on the last business day of the prior calendar quarter. Depending on the terms of the investment management agreement, some clients may be charged in arrears and/or monthly. If management begins after the start of a month or quarter, fees will be prorated accordingly. The initial billing period begins when an investment management agreement is signed by the client and accepted by Davidson. Clients may choose to have fees deducted directly from their account or be invoiced quarterly.

Services Covered by the Fees. The fee includes Davidson's investment management and other administrative services.

Services NOT Covered by the Fees. The fee does not include commissions for account transactions, custodial fees, or charges arising from retirement account fees, trust fees, margin interest charges, exchange fees, redemption fees that may be assessed on mutual fund shares, transfer fees or other special service fees and charges.

Additional Fees and Expenses. Davidson may invest client assets in one or more pooled investment vehicles, such as mutual funds and exchange-traded funds, if such investments are consistent with the investment objectives and policies of the client accounts involved. If Davidson makes such an investment on behalf of its clients, those clients will be responsible, indirectly as investors in the pooled investment vehicles, for a portion of the operating expenses of the pooled investment vehicles in which they are invested. In effect, those clients would be paying multiple advisory fees. When investing in mutual funds, including money market funds, a 12b-1 fee may be assessed, depending on the fund selected. 12b-1 fees are sales charges that are incorporated into the expense ratio of the fund. In no case does Davidson receive compensation from mutual fund companies in which client assets are invested. For client accounts custodied at D.A. Davidson & Co., if a 12b-1 fee is paid, it is rebated back to the client account. For accounts managed by the Firm that are held at custodians other than D.A. Davidson & Co., please refer to the custodian's 12b-1 rebate practices, as Davidson is unable to rebate any such 12b-1 fees.

Termination of the Advisory Relationship. If either Davidson or client terminates the client's investment management agreement, any prepaid, unearned fees will be refunded. In calculating a client's reimbursement of fees, Davidson will credit the client's account with a pro-rated refund based on the number of days remaining in the billing period.

Advisory Fees in General. Clients should note that similar advisory services may (or may not) be available from other registered (or unregistered) investment advisers for similar or lower fees.

Additional General Fee Information. In some instances, clients may pay a higher fee than

indicated in the fee schedules above. Davidson may modify a client's existing fees and/or add additional fees or charges by providing the client thirty (30) days prior written notice. The fee schedules set forth above are current fee schedules for various strategies. Each strategy has had different fee schedules in effect over time, which may have reflected fees that are higher or lower than those currently stated. As new fee schedules are put into effect, only new clients are affected; therefore, some clients may pay different fees than those stated above.

Davidson, at its discretion, may group certain related client accounts for the purposes of achieving the minimum account size requirements and determining the annualized fee.

Discounts, not generally available to our advisory clients, may be offered to family members and friends of associated persons of our firm.

ERISA Accounts. Davidson Investment Advisors is deemed to be a fiduciary to advisory clients that are employee benefit plans or individual retirement accounts (IRAs) pursuant to the Employee Retirement Income and Securities Act ("ERISA"), and regulations under the Internal Revenue Code of 1986 (the "Code"), respectively. As such, Davidson is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation.

Other Advisory Fees Collected by Davidson: Davidson Investment Advisors receives fees for the investment advisory services it provides for the Davidson Multi-Cap Equity Fund. Investors are invited to visit our website at www.davidsonmutualfunds.com and read the Fund's prospectus for more information.

Wrap Fee Programs. Davidson's fee for its sub-advisory arrangements is determined by separate contracts entered into with various

program sponsors. These fees, including any and all trading and transaction costs are "wrapped" into one overall fee as determined and calculated by the wrap fee sponsor.

The amount of Davidson's portion of the wrap fee varies dependent upon several factors, including the specific terms agreed between Davidson and the wrap fee sponsor, the client's account size, the client's related investment management accounts, and individual account investment restrictions.

Important information about the program sponsor's advisory programs, brokerage services, custody relationships and conflicts of interest is available in the Program Sponsor's Form ADV, Part 2. A copy of the Form ADV is provided to the client at or prior to opening an account, annually, and upon request by contacting the Program Sponsor directly. For fees related to Davidson Investment Advisors' Wrap Program, please refer to Davidson Investment Advisors' Wrap Program brochure.

Item 6 Performance-Based Fees and Side-By-Side Management

Davidson Investment Advisors, Inc. does not charge performance-based fees.

Item 7 Types of Clients

Davidson offers its services to all types of current or prospective clients, including, but not limited to: individuals; banks or thrift institutions; pension and profit sharing plans; trusts; estates; charitable organizations; corporations or other business entities; and registered investment companies.

Minimum Account Requirements. A minimum of \$100,000 of assets under management is generally required to participate in the Equity Income and Multi-Cap Equity strategies. A minimum of \$250,000 of assets under management is generally required to participate in the Intermediate Taxable Fixed

Income and SeaCap Intermediate Municipal Fixed Income strategies. The account minimum for custom portfolio solutions and/or asset allocation services is negotiable. Please refer to Item 8 for a detailed description of the investment strategies.

This account size may be negotiable under certain circumstances. Davidson Investment Advisors may group certain related client accounts for the purposes of achieving the minimum account size and determining the annualized fee.

Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

METHODS OF ANALYSIS

The investment team process leverages one team, with shared responsibility for due diligence and explicit accountability for decisions. There is a focus on discipline in portfolio construction and risk-adjusted investment performance.

Davidson utilizes three primary methods of analysis for all its investment strategies:

Fundamental Analysis. Davidson attempts to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the security.

Quantitative Analysis. Davidson uses mathematical models in an attempt to obtain more accurate measurements of a company's quantifiable data, such as the value of a share price or earnings per share, and predict changes to that data.

A risk in using quantitative analysis is that the models used are based on assumptions that may prove to be incorrect.

Qualitative Analysis. Davidson subjectively evaluates non-quantifiable factors such as quality of management, labor relations, and strength of research and development factors not readily subject to measurement, and attempts to predict changes to market value based on that data.

A risk of using qualitative analysis is that our subjective judgment proves to be incorrect.

Risk of loss for all forms of analysis. Securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis becomes compromised by inaccurate or misleading information. Investing in any security involves risk of loss that clients should be prepared to bear.

RISK OF LOSS

Clients should understand that investing in any securities, including mutual funds, involves a risk of loss of both income and principal. The following provides information on specific types of investment risks depending on the type of underlying investments.

Market Risk. Market risk is the risk of investment losses due to external factors that affect the overall performance of the financial markets, independent of a security's

particular underlying circumstances. For example, political, economic and social conditions may trigger market events and cause prices to fall.

Business Risk. These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of potential profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.

Financial Risk. Excessive borrowing to finance a business' operations and financial stress increases the risk of profitability and loan default, and consequently the risk of bankruptcy and/or a declining market value.

Inflation Risk. When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation. Inflation risk is the risk of inflation exceeding or eroding the return of an investment.

Interest Rate Risk. Fluctuations in interest rates cause investment prices to fluctuate. For example, bond market values have an inverse relationship to changes in interest rates. Rising interest rates cause bond market values to decline and declining interest rates cause market values to rise. Generally, the longer a bond's maturity, the greater the interest rate risk and the higher its yield. Similarly, equities may also suffer from a rising interest rates. Therefore, in real terms, your portfolio may not keep up with the rate of inflation.

Liquidity Risk. Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many individuals are interested in buying or selling a standard asset or product. For example, Treasury bills are

highly liquid, while real estate properties are not.

Reinvestment Risk. This is the risk that future proceeds from investments have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities

Currency Risk. Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk. Currency risk is the risk of a loss in investments made in foreign countries due to a depreciation of the corresponding country's currency.

INVESTMENT STRATEGIES

Davidson primarily offers the following investment strategies:

Equity Income Strategy

The Davidson Equity Income strategy is actively managed and invests in high-quality companies with solid balance sheets, ample cash flow and a strong competitive position generating attractive return on capital. Key to the investment strategy is our focus on Dividend Power - looking beyond current dividend yield to include a company's future capacity for dividends. Using a multivariate appraisal process, we assess value across three dimensions (Asset Value, Dividend Power and Growth Value) to uncover quality companies underappreciated by the broader market.

Multi-Cap Equity Strategy

The Davidson Multi-Cap Equity strategy is actively managed and unconstrained by market capitalization and style classifications. As fundamental investors, we are cognizant of cyclical and secular dynamics, and focus on profitable companies with attractive return on capital, cash flow and growth prospects. Of key importance are superb management teams with sound,

achievable strategies. We take active industry positions, with relative position sizes commensurate with risk. Our holdings are diversified by economic sector and adjusted based on where we view the greatest market opportunities.

Intermediate Taxable Fixed Income Strategy

The Davidson Intermediate Taxable Fixed Income strategy is actively managed and focuses on the intermediate portion of the yield curve. We invest in investment grade or higher issues with maturities generally ranging from one to ten years. Stability of principal value is a primary focus of the strategy; we perform rigorous fundamental credit analysis and monitor issuers and credit trends daily. We believe that fixed income assets are best managed actively with respect to duration and credit exposures, as we monitor, anticipate, and respond to changes in the broad economy and the interest rate environment.

SeaCap Intermediate Municipal Fixed Income Strategy

The SeaCap Intermediate Municipal strategy is actively managed and focuses on the intermediate portion of the yield curve, purchasing issues rated "A" or higher with maturities ranging from one to fifteen years. Emphasis is placed on purchasing issues with predictable income and principal stability, while managers also remain aware of resiliency to credit stress, changing interest rates, and market volatility. Given the tax-sensitive nature of the asset class, attention is also paid to the management of portfolio turnover and the opportunity to realize gains or losses as advantageous for clients, as well as Alternative Minimum Tax and state tax considerations.

Custom Portfolio Management

Davidson also offers custom portfolio management to meet the needs of our clients, which include, but is not limited to, asset

allocation services. We tailor portfolios to Investment Policy Statement specifications (when applicable) regarding exposure to various asset classes (including, but not limited to, equities, fixed income securities, international securities, alternative investments, and private equity), as well as desired portfolio characteristics (such as quality parameters or cash flow projections). We also offer portfolios designed to provide both strategic and tactical allocations based upon client-specific needs/tolerances and broad capital market exposures consistent with our Investment Team's views of market opportunities.

Item 9 Disciplinary Information

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

D.A. Davidson & Co., a related person and broker-dealer, was the qualified custodian for many Davidson Investment Advisor clients at the time of the following events. In April 2010, D.A. Davidson & Co., without admitting or denying the allegations, consented to the findings of the Financial Industry Regulatory Authority, Inc. ("FINRA") that it violated: (1) Rule 30 of Regulation S-P in failing to adopt and implement policies and procedures reasonably designed to safeguard customer records and information; and (2) NASD Rules 3010(A) and (B) by failing to establish and maintain a system, reasonably designed to achieve compliance with Rule 30 of Regulation S-P. The events arose from the criminal hacking of one of D.A. Davidson & Co.'s databases, which occurred at the end of 2007. D.A. Davidson & Co. was censured and fined \$375,000.

Item 10 Other Financial Industry Activities and Affiliations

Davidson is a wholly-owned subsidiary of D.A. Davidson Companies, a financial services holding company with other subsidiaries: D.A. Davidson & Co., D.A. Davidson Trust Company, and Davidson Fixed Income Management, Inc. ("Davidson Fixed Income Management"). D.A. Davidson & Co. is a broker-dealer registered as such with FINRA (Financial Industry Regulatory Authority) and a SEC Registered Investment Adviser. D.A. Davidson Trust Company is a federal savings bank. Davidson Fixed Income Management is a SEC registered investment adviser. This presents a conflict of interest, as each of these firms are under common ownership. However, as discussed in further detail under the Code of Ethics-section below Davidson has a fiduciary duty to place its client's interest above all else.

Davidson may recommend clients use D.A. Davidson & Co. and D.A. Davidson Trust Company, related parties, for custody and safekeeping purposes. The client also retains the right to direct Davidson to use another broker. If a client elects to use D.A. Davidson & Co. or D.A. Davidson Trust Company, the client may terminate the arrangement at any time. See additional information in regard to Directed Brokerage under Item 12 – Brokerage Practices.

Davidson Investment Advisors employs two portfolio managers from Davidson Fixed Income Management, Inc.; they are located in Denver, Colorado and Portland, Oregon. These portfolio managers receive a portion of management fees attributable to accounts that they refer to Davidson. As a matter of firm practice, the advisory fees charged to clients referred by these portfolio managers are not increased as a result of any referral. D.A. Davidson Trust Company employs Davidson to manage money for some of its clients who have granted investment

discretion to the Trust. Davidson also manages four D.A. Davidson Trust Company common trust funds.

D.A. Davidson & Co. Financial Advisors may refer clients to Davidson Investment Advisors, Inc. in its capacities as independent investment adviser and as an investment adviser participating in D.A. Davidson's advisory programs. However, as fiduciaries, D.A.

Davidson & Co. and its Financial Advisors will select or recommend affiliated investment products only when they determine it to be in the client's best interest to do so. The criteria used by them in deciding to select or recommend affiliated investment products are the same as those used for unaffiliated investment products.

Mutual Fund. Davidson previously disclosed in "Advisory Business" (Item 4) and "Fees and Compensation" (Item 5) of this brochure that it is the investment adviser to the Davidson Multi-Cap Equity Fund, a series of the Adviser Series Trust, an investment company registered under the Investment Company Act of 1940. Please refer to these items for a detailed explanation of this relationship and important conflict of interest disclosures.

For additional information, the Fund's Prospectus and Statement of Additional Information are available on-line at: www.davidsonmutualfunds.com. Prospective investors should review these documents carefully before making any investment in the mutual fund.

Mutual Fund Sub-Advisory Services

Davidson Fixed Income Management, a related person doing business as Kirkpatrick Pettis Capital Management, serves as the sub-advisor to the Tax Free Fund of Colorado and to the Tax Free Trust of Oregon, both of which are municipal bond mutual funds, registered with the SEC. In its role as sub-advisor, it provides portfolio management services on a

discretionary basis to the funds' investment adviser, Aquila Investment Management, LLC. Both of these mutual funds invest in municipal bonds issued by state, county or local governments located in each respective mutual fund's state.

Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

CODE OF ETHICS

Davidson Investment Advisors has adopted a Code of Ethics ("Code") which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

Davidson's Code establishes rules of conduct for all employees and is designed to govern personal securities trading activities in the accounts of employees, among other things. The Code is based upon the principle that Davidson and its employees owe a fiduciary duty to its clients to conduct their affairs, including their personal securities transactions, in such a manner as to avoid: serving their own personal interests ahead of clients; taking inappropriate advantage of their position with the firm; and any actual or potential conflicts of interest or any abuse of their position of trust and responsibility.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by calling us at 800-332-0529.

PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS

As a general practice, Davidson does not engage in principal transactions. Davidson and individuals associated with our firm are prohibited from engaging in agency cross transactions.

Davidson employees are allowed to invest in the same securities recommended to or owned by clients. However, in order to avoid conflicts of interest, all Davidson employees are required to receive prior approval to trade in personal security accounts.

Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our 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 for their own accounts.

D.A. DAVIDSON & CO. PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS

As previously noted, Davidson Investment Advisors may recommend D.A. Davidson & Co., a related party and broker-dealer, as the qualified custodian for many Davidson Investment Advisor clients. Subject to the requirements of applicable law, D.A. Davidson & Co. may act as principal, buying securities for itself from, or selling securities it owns to, an advisory client, but only on a case-by-case basis with advance written authorization from the client, and when it is in the best interest of a client to do so.

D.A. Davidson & Co.'s policy generally prohibits agency cross transactions for advisory clients, but in rare exceptions may be granted. An agency cross transaction is a transaction in which D.A. Davidson & Co. acts as broker for the party or parties on both sides of the transaction. However, no cross transactions may be made in ERISA-covered or IRA advisory accounts. For additional information regarding D.A. Davidson & Co.'s principal trading and agency cross transaction policies, please refer to D.A. Davidson & Co.'s Firm Brochure. You may also request a copy by calling us at 800-332-0529.

For additional information regarding D.A. Davidson & Co.'s principal trading and agency cross transaction policies, please refer to D.A. Davidson & Co.'s Firm Brochure.

Item 12 Brokerage Practices

For discretionary clients, Davidson Investment Advisors will determine: (1) which securities are bought and sold; (2) the total amount of such purchases and sales and whether a client's transaction should be aggregated with those of other clients; (3) the broker through which transactions will be executed and; (4) the commission rates paid to effect the transactions in the good faith judgment of the firm so that such orders will be placed at prices and commissions that will be in the best interest of the account.

Best Execution. Davidson has the obligation to seek best execution when it places trades with broker-dealers. Best execution entails the efficient placement of orders, clearance, settlement and the overall quality of execution as well as the cost of the transaction.

Selection of Broker-Dealers. Davidson considers the full range and quality of the services in selecting or approving broker-dealers to meet best execution obligations which include but are not limited to: ability to provide anonymity; promptness of execution; access to inventory in case of fixed income, or access to multiple centers and alternative networks in case of equity; best available price; competitive bids/offers; adequate backup for the trader; financial stability/business reputation; overall responsiveness, and communication.

Soft Dollars. Consistent with obtaining best execution for clients, Davidson maintains trading arrangements with various broker-dealers whereby it has access to its research. Davidson may direct trades to one of those broker-dealers and pay commissions that are competitive but that are higher than the

lowest available rate that another broker might have charged, if Davidson determines in good faith that the commissions are reasonable in relation to the value of the brokerage and research services provided.

The provision of such services in exchange for brokerage business is commonly referred to as a "soft dollar arrangement." Research services and products may include tangible research products, (publications or writings as to the value of securities, analysis and reports concerning issuers, industries, economic factors and trends) as well as direct access to analysts and traders. This creates an incentive to select or recommend a broker-dealer based on Davidson's interest in receiving research, rather than clients' interest in receiving most favorable execution. However, Davidson has a fiduciary duty to act in the best interest of clients and to obtain best execution for its advisory clients. Davidson does not enter into soft dollar arrangements that are not covered by the safe harbor of Section 28(e) of the Securities Exchange Act of 1934.

Directed Brokerage. Some clients, when undertaking an advisory relationship, may already have a pre-established relationship with a broker-dealer. Therefore, the client may instruct Davidson to execute all transactions through that broker-dealer. If the client directs Davidson to use a particular broker-dealer, the client recognizes that Davidson will likely have no authority to negotiate commissions, to obtain volume discounts and best execution may not be achieved. Under these circumstances, there may be a disparity in commissions charged among Davidson clients.

Order Aggregation. Davidson will aggregate client trades where possible and when advantageous to clients. This aggregation of trades permits the trading of blocks of securities composed of assets from multiple client accounts, so long as transaction costs are

shared equally and on a pro-rated basis between all accounts included in any such block. All participating accounts receive an average share price for trade execution.

Directed Brokerage in Wrap Programs. Client accounts managed by Davidson which originate through a Wrap Program ordinarily are directed brokerage accounts. Sponsors of these programs typically charge the program participants a fee which covers the costs of executing transactions for the participants' accounts when such transactions are placed by the program sponsor. Trades not placed by the program sponsor are referred to as "step-out" trades and will incur the client additional trading costs. A Wrap Program client should confer with the program's sponsor and determine that the direction of brokerage provided for under the program is reasonable in view of the benefits received, and that the trade execution provided by the program's sponsor is in the client's best interest.

Davidson "steps-out" the majority of its trades, since it believes that "step-out" trades are more likely to provide Wrap Program clients with best execution and offer a higher degree of liquidity. Since Davidson will frequently trade away from the program sponsor, Wrap Program clients will incur trading costs that are in addition to the fee they pay to the program sponsor.

Trade Rotation. Davidson employs a trade rotation policy for block trades, by which a rotating, pre-determined order is used to bring clients' shares to the market.

Item 13 Review of Accounts

Reviews. The investment team continually monitors the underlying securities within each strategy's portfolios. Depending on the type, accounts are generally reviewed on a quarterly basis or at least on an annual basis. Specific client-imposed restrictions are reviewed periodically. More frequent reviews may be

triggered by material changes in variables such as the client's individual circumstances, the market, political or economic environment.

These accounts are reviewed by various members of the investment team, client service professionals and portfolio administrators.

Reports. Davidson generally provides written reports to clients on the performance of their account(s) on a quarterly basis. Client performance reports typically include a portfolio valuation, the asset allocation, and account performance. Performance returns include the deduction of advisory fees, transaction costs, market appreciation or depreciation and the reinvestment of capital gains, dividends, interest and other income.

When preparing a client's account statements and performance reports, Davidson relies on third parties, such as third party quotation services and other custodians when determining the value of account assets. Our firm does not conduct an in-depth review of valuation information provided by third party quotation services or other custodians, and it does not verify or guarantee the accuracy of such information. The prices obtained by Davidson from the third party quotation services it uses may differ from prices that could be obtained from other sources. If a client has assets held by a third party custodian, the prices shown on a client's account statement provided by that custodian may be different from the prices shown on statements and reports provided by Davidson due to the use of different valuation sources by the custodian and Davidson.

Item 14 Client Referrals and Other Compensation

CLIENT REFERRALS

Davidson will from time to time pay referral fees to independent persons or firms

("Solicitors") for introducing clients to us. Whenever Davidson pays a referral fee, we require the Solicitor to provide the prospective client with a copy of this Brochure and a separate disclosure statement that includes: the Solicitor's name and relationship with our firm; the fact that the Solicitor is being paid a referral fee; the amount of the fee; and whether the fee paid to us by the client will be increased above our normal fees in order to compensate the Solicitor.

As a matter of firm practice, the advisory fees charged to clients referred by solicitors or related parties are not increased as a result of any referral.

OTHER COMPENSATION

It is Davidson Investment Advisors' policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

Item 15 Custody

We previously disclosed in the "Fees and Compensation" section (Item 5) of this Brochure that when client assets are custodied at our related person, D. A. Davidson & Co., a qualified custodian, advisory fees can be directly debited from client accounts. In some instances, a client appoints a separate custodian to maintain client assets in which advisory fees may also be directly debited with written authorization from the client on file

As a related person to D.A. Davidson & Co. and D.A. Davidson Trust Company, Davidson is deemed to have indirect custody of some clients' assets. However, all client assets are held with financial institutions known as qualified custodians who are responsible for maintaining the assets and records of those assets.

Clients will receive account statements directly from their qualified custodian. That statement is the official record of your account and the assets contained in it. As previously noted under Item 13, Davidson also delivers statements and reports to clients on the performance of their account. We urge you to compare the information contained in the Davidson quarterly account statements and other reports to the information contained in your official statements for the same period. In the event of a discrepancy between an official account statement and other reports or statements for the holdings and transactions shown, the client's official account statement shall prevail.

Item 16 Investment Discretion

Clients hire us to provide discretionary asset management services, in which case Davidson places trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

Our discretionary authority includes the ability to do the following without contacting the client: determine the security to buy or sell and/or amount of the security to buy or sell.

Clients give us discretionary authority when they sign an investment management agreement with Davidson, and may limit this authority by giving us written instructions. Clients may also change such limitations by providing us with subsequent written instructions.

Item 17 Voting Client Securities

Davidson generally votes proxies for client accounts; however, clients always have the right to vote proxies. Clients can exercise this right by instructing us in writing to not vote proxies in your account. Davidson uses a third party vendor to exercise its proxy voting administrative duties and receives voting recommendations from another third party

service provider Davidson has engaged for making such recommendations. Davidson will generally vote proxies for client accounts based on the recommendations of our third party service provider. However, Davidson may override the third party service provider's recommendations when it determines it to be in the clients' best interests. Davidson portfolio managers may also suggest how to vote on a particular matter not addressed by the third party service provider.

An Investment Adviser Proxy Voting Committee (the "Committee"), with members including senior personnel from Davidson and other D.A. Davidson Companies' subsidiaries, meets periodically. The Committee monitors Davidson's overall adherence to proxy voting policies and procedures. It also reviews the rationale for some proxy votes that are not covered by the policies and procedures, or that present a potential conflict of interest. The Committee periodically reviews policies and procedures and provides advice for revisions thereof.

Davidson proxy voting policies and procedures can be found on the Internet at www.davidsoncompanies.com/dia or a copy of the policies can be mailed, free of charge, at client's request to the following address:

Davidson Investment Advisors' Compliance Department, 8 Third Street North, Great Falls, MT, 59401.

With respect to ERISA accounts, we will vote proxies unless the plan documents specifically reserve the plan sponsor's right to vote proxies. To direct us to vote a proxy in a particular manner, clients should contact his or her Davidson representative by telephone, email, or in writing.

Class Actions. Davidson will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's account(s), including, but not

limited to, the filing of "Proofs of Claim" in class action settlements. If desired, clients may direct us to transmit copies of class action notices to the client or a third party. Upon such direction, we will make commercially reasonable efforts to forward such notices in a timely manner.

Item 18 Financial Information

We are also required to disclose any financial condition that is likely to impair our ability to meet our contractual obligations. Davidson Investment Advisors, Inc. has no additional financial circumstances to report.

Davidson Investment Advisors, Inc. has not been the subject of a bankruptcy petition at any time during the past ten years.

Under no circumstances do we require or solicit payment of fees in excess of \$1,200 more than six months in advance of services rendered.