Flaherty & Crumrine Incorporated

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This Brochure provides information about the qualifications and business practices of Flaherty & Crumrine Incorporated. If you have any questions about the contents of this Brochure, please contact us at 626-795-7300 or compliance@pfdincome.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

Additional information about Flaherty & Crumrine also is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

We last updated this Brochure on March 31, 2011. Since then, we have made no material changes to this Brochure.

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

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

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

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Item 4 – Advisory Business

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

We are an independently-owned, California corporation and controlled by our employees. 80% of the shares are owned and controlled by our principals (Donald Crumrine – 27.5%, Robert Ettinger – 27.5%, R. Eric Chadwick – 10%, Bradford Stone – 10%, and Chad Conwell – 5%). Having retired in January of 2003, our co-founder, Robert T. Flaherty, retains a 20% position and is our only outside shareholder. We believe our independent ownership and business model focused just on preferred securities minimize potential conflicts of interest.

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

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

As of February 28, 2012, our regulatory assets under management were approximately $4.4 billion.

Item 5 – Fees and Compensation

Fees and Agreements for Institutional Accounts

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

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

Annual Fee Rates:

- $150,000 on assets managed up to $40,000,000
- 0.30% on assets managed above $40,000,000

Fees may be negotiated depending on the size of the account and the investment services being provided. Comparable services may be available from other sources at lower fees.

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

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

Fees for investment companies and other pooled investment vehicles

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

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

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

We (and not FFC or FLC) have agreed to pay a fee to Merrill Lynch quarterly at an annual rate of 0.10% of FFC's average monthly total net assets and 0.15% of FLC's average monthly total net assets during the continuance of the advisory agreement. This fee is for certain after-market services provided by Merrill Lynch which are designed to maintain the visibility of FFC and FLC on an ongoing basis and to provide relevant information, studies or reports regarding FFC and FLC and the closed-end investment company industry.

We sub-advise the portfolio of FFI.UN pursuant to a portfolio management agreement with the fund and Brompton Funds Management Limited which provides an annual advisory fee of 0.607% of the average weekly net asset value of the fund. This fee may be paid in cash or, subject to compliance with applicable securities laws and the rules of the stock exchange on which the units are listed, in units of the applicable fund or in some combination thereof, at the election of the firm.

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

respect of the Fund). The fund has agreed to pay Destra a monthly fee in an annual amount equal to 0.75% of the fund's daily net assets. Destra has agreed to contractually waive its management fee and/or assume the other expenses in order to limit the total annual fund operating expenses of the fund to certain limits until at least February 1, 2022.

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

Other information about our fees

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

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

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

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

Item 7 – Types of Clients

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

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

Methods of Analysis

We rely primarily on internally generated research when making investment decisions. Our principal sources of information include the public filings of issuers, annual reports, industry data, and interactions with management. In addition, we also consider trade publications, media reports and other research generated by broker-dealers and independent research services and ratings agencies. In generating our research, we analyze both the credit quality of the issuer and the yield spreads among different

categories of instruments and the changes in those spreads which may occur as the broad interest rate environment changes over the business cycle. We will also study the technical aspects surrounding different types of preferred and debt securities and amongst issuers.

We have developed databases and analytical computer programs specifically aimed at the analysis of preferred and debt securities. Other than select information available at our website, www.preferredstockguide.com, the information produced from these tools is proprietary.

Investment Strategies

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

Short sales and margin transactions may be utilized as part of broader strategies which are designed to take advantage of spreads and other relationships within the fixed income markets. When appropriate, financial futures and options as well as credit derivative swaps or options thereon may also be used for similar purposes or to manage the credit risk exposure of fixed income securities.

Risks

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

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

Preferred security risk: Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure and therefore are subject to greater credit risk than those more senior debt instruments. In addition, preferred securities may be substantially less liquid than many other securities, such as U.S. government securities or common stock.

Generally, preferred security holders have no voting rights with respect to the issuing company. In some cases, preferred security holders may have voting rights if preferred

dividends have been in arrears for a specified number of periods, at which time the preferred security holders may elect a number of directors to the issuer's board. Generally, once all the arrearages have been paid, the preferred security holders no longer have voting rights. In the case of preferred securities issued by trusts or other special purpose entities, holders generally have no voting rights, except (a) if the issuer fails to pay dividends for a specified period of time or (b) if a declaration of default occurs and is continuing. In such an event, preferred security holders generally would have the right to appoint and authorize a trustee to enforce the trust or special purpose entity's rights as a creditor under the agreement with its operating company.

Generally, preferred securities may be subject to provisions that allow an issuer to skip (in the case of "noncumulative" preferred securities) or defer (in the case of "cumulative" preferred securities) distributions.

While preferred securities are often initially issued with restrictions on their redemption during the first 5-10 years, after that the issuer typically has the right to redeem the security at par value. For certain types of preferred securities, a redemption may be triggered even earlier by a change in federal income tax or securities laws or due to a change in the capital treatment the issuer receives from its regulator or rating agencies. A redemption by the issuer may negatively impact returns.

From time to time, preferred securities have been, and may in the future be, offered having features other than those described herein. In addition to limited liquidity, these instruments may present other risks, such as high price volatility. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and proposed regulations could lead to the issuance of new forms of preferred and hybrid preferred securities with features such as automatic equity conversion and/or write downs from par value under certain circumstances.

Credit risk: Credit risk is the risk that an issuer of a preferred or debt security will be unable or unwilling to make interest and principal payments when due and the related risk that the value of a security may decline because of concerns about the issuer's ability or willingness to make such payments. Changes in an issuer's credit rating or the market's perception of an issuer's creditworthiness may also affect values.

Interest rate risk: Interest rate risk is the risk that the value of your portfolio will decline because of rising interest rates. Interest rate risk is generally lower for shorter-term investments and higher for longer-term investments (including preferred securities). Duration is a common measure of interest rate risk. Duration measures a preferred security's or bond's expected life on a present value basis, taking into account yield, interest payments and final maturity. Duration is a reasonably accurate measure of price sensitivity to changes in interest rates. The longer the duration of a security, the greater the security's price sensitivity is to changes in interest rates.

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

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

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

U.S. and foreign laws and regulations require banks and bank holding companies to maintain minimum levels of capital and liquidity and to establish loan loss reserves. A bank's failure to maintain specified capital ratios may trigger dividend restrictions, suspensions on payments on subordinated debt and preferred securities, and limitations on growth. Bank regulators have broad authority in these instances and can ultimately impose sanctions, such as imposing resolution authority, conservatorship or receivership, on such non-complying banks even when these banks continue to be solvent, thereby possibly resulting in the elimination of stockholders' equity. Unless a bank holding company has subsidiaries other than banks that generate substantial revenues, the holding company's cash flow and ability to declare dividends may be impaired severely by restrictions on the ability of its bank subsidiaries to declare dividends.

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

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

country, venture capital, technology, telecommunications, and highly-leveraged loan portfolios.

Since September 2008, the financial services sector experienced unprecedented turbulence. The U.S. economy's recession, led by the downturn in the housing industry, adversely affected the quality of most financial services companies' loan and securities portfolios. In response, U.S. and foreign governments and rating agencies have begun to reassess the quality and levels of capital.

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

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

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

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

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

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

a timely manner. Gains or losses from positions in a derivative instrument may be much greater than the derivative's original cost.

Item 9 – Disciplinary Information

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

Item 10 – Other Financial Industry Activities and Affiliations

Flaherty & Crumrine is registered with the National Futures Associations as a commodity trading adviser – in connection with the interest rate hedging strategy we offer to some of our clients.

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

Item 11 – Code of Ethics

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

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

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

The code of ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (a) making decisions in the best interest of advisory clients and (b) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the code certain classes of securities have been designated as exempt transactions, based upon a determination that

these would materially not interfere with the best interest of our clients. In addition, the code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the code in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is monitored under the code to reasonably prevent conflicts of interest between our clients and us.

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

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

It is our policy that the firm will not affect any principal or agency cross securities transactions for client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. We may, however, recommend securities to unaffiliated clients that are also currently held in affiliated client portfolios or personally held by our employees. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

Item 12 – Brokerage Practices

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

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

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

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

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

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

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

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

Item 13 – Review of Accounts

Each of our portfolio managers and Chief Compliance Officer regularly reviews client accounts (on at least a monthly basis). Separately-managed institutional accounts and the U.S. and Canadian Funds (which are concentrated in fixed income securities) are managed and reviewed on a daily basis directly by our portfolio managers who also serve as traders. In addition, compliance of these accounts with their investment guidelines is reviewed on a daily and monthly basis. Reviews for all client accounts are triggered whenever we change our opinion on broad market economic trends, or on the credit condition or prospects of individual securities.

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

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

Item 14 – Client Referrals and Other Compensation

We do not compensate any third party for client referrals and none of our employees are directly compensated for client solicitation.

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

Item 15 – Custody

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

Item 16 – Investment Discretion

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

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

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

Item 17 – Voting Client Securities

Generally, and except to the extent that a client otherwise instructs us in writing, we will vote (by proxy or otherwise) in all matters for which a shareholder vote is solicited by, or

with respect to, issuers of securities beneficially held in the client's account in such manner as we deem appropriate in accordance with our written policies and procedures. These policies require us to vote proxies in a prudent and diligent manner intended to enhance the economic value of the client's account. However, the policies permit us to abstain from voting proxies in the event that the client's economic interest in the matter being voted upon is limited relative to the client's overall portfolio or the impact of the client's vote will not have an effect on its outcome or on the client's economic interests.

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

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

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

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

Item 18 – Financial Information

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

Privacy Policy

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

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

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

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

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