



**Stonebridge Advisors LLC**  
**Form ADV Part 2A – Firm Brochure**  
**March 22, 2024**

This brochure provides information about the qualifications and business practices of Stonebridge Advisors LLC (“Stonebridge” or the “Firm”). If you have any questions about the contents of this brochure, please contact Stonebridge at 1-203-762-0004. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

Stonebridge is an investment adviser registered with the SEC under the Investment Advisers Act of 1940. Registration as an investment adviser does not imply any level of skill or training.

A copy of this brochure and additional information about the Firm is also available on the SEC’s website: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

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## **Item 2 – Material Changes**

Stonebridge Advisors LLC ("Stonebridge") has amended its Form ADV Part 2A ("Brochure") as part of the annual amendment process. There were no material changes made to the Brochure since our last annual update on March 31, 2023.

The Material Changes section of this Brochure will be updated annually or when material changes from the prior version occur.

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#### Item 4 – Advisory Business

Stonebridge specializes in providing discretionary investment management and supervisory services to portfolios of preferred, hybrid and other fixed income securities (“**preferreds**”) as described below. We do not advise clients regarding their overall portfolio asset allocation strategy or make determinations as to the suitability of preferreds for an investor’s portfolio allocation. Allocation strategies and suitability assessments should be made by investors in consultation with their financial advisors or other investment consultants. Although we may make reference to the general tax characteristics of certain securities in connection with some of our strategies, we do not provide tax advice. Investors or prospective investors needing tax advice specific to their situation should contact their personal tax consultant(s).

Stonebridge was founded in December 2004 and is primarily owned by First Trust Capital Partners LLC (“FTCP”) and Stonebridge Asset Management, LLC. As of December 31, 2023, Stonebridge managed the following asset amounts:

	<u>U.S. Dollar Amount</u>
Assets Under Management <sup>1</sup>	\$ 10,042,832,031
Assets Under Advisement <sup>2</sup>	\$ 1,741,816,098
Total Assets	\$ 11,784,648,129

<sup>1</sup>Includes discretionary assets under management which are reported as Regulatory Assets Under Management (RAUM) in Item 5.F. of Form ADV Part 1A.

<sup>2</sup>Includes assets in model-based programs where Stonebridge does not have discretion or trading authority over the accounts, which are not treated as Regulatory Assets Under Management (RAUM) in Item 5.F. of Form ADV Part 1A.

#### **Investment Management for the FT Preferred Securities and Income ETF (“FPE”)**

Stonebridge is the discretionary sub-advisor of the actively-managed First Trust Preferred Securities and Income ETF (ticker FPE), an exchange-traded fund organized as a separate series of the First Trust Exchange-Traded Fund III (a registered management investment company). FPE’s investment objective is to seek total return and to provide current income by investing, under normal market conditions, at least 80% of its net assets (including investment borrowings) in preferred securities and income-producing debt securities. FPE invests in securities that are traded over-the-counter or listed on an exchange. For purposes of the 80% test, securities of open-end funds, closed-end funds or other exchange-traded funds registered under the Investment Company Act of 1940 that invest primarily in preferred or income securities are deemed to be preferred or income securities. FPE may utilize hedging strategies solely to attempt to mitigate risk. For complete information please consult the FPE prospectus and associated documents.

### **Investment Management for the FT FPEI Institutional Preferred Securities and Income ETF (“FPEI”)**

Stonebridge is the discretionary sub-advisor of the actively-managed First Trust Institutional Preferred Securities and Income ETF (ticker FPEI), an exchange-traded fund organized as a separate series of the First Trust Exchange-Traded Fund III (a registered management investment company). FPEI’s investment objective is to seek total return and to provide current income by investing, under normal market conditions, at least 80% of its net assets (including investment borrowings) in institutional preferred securities and income-producing debt securities. Institutional preferred securities are targeted to institutional rather than retail investors, are generally traded over-the-counter, and may also be known as “\$1000 par preferred securities.” They are typically issued in large institutional lot sizes by U.S. and non-U.S. financial services companies and other companies. While all income-producing debt securities will be categorized as “Income Securities” for purposes of the 80% test, the Income Securities in which the Fund intends to invest as part of its principal investment strategy include hybrid capital securities, contingent capital securities, U.S. and non-U.S. corporate bonds and convertible securities. FPEI may utilize hedging strategies solely to attempt to mitigate risk. For complete information please consult the FPEI prospectus and associated documents.

### **Investment Management for the FT Intermediate Duration Preferred and Income Fund (“FPF”)**

Stonebridge is the discretionary sub-advisor of the actively-managed First Trust Intermediate Duration Preferred & Income Fund (ticker FPF), a non-diversified, closed-end investment company. FPF's primary investment objective is to seek a high level of current income by investing in preferred and other income-producing securities, with a secondary objective of capital appreciation. FPF seeks to maintain, under normal market conditions, a blended (or weighted average) portfolio duration of between three and eight years. FPF invests at least 80% of its net assets (including investment borrowings) in preferred securities and income-producing debt securities. FPF invests in securities that are traded over-the-counter or listed on an exchange, and may use leverage. FPF may utilize hedging strategies solely to attempt to mitigate risk. For complete information please consult the FPF prospectus and associated documents.

### **Investment Management for the FT Preferred Securities and Income Fund (“PSI”)**

Stonebridge is the discretionary sub-advisor of the actively-managed First Trust Preferred Securities and Income Fund (PSI), a series of the First Trust Series Fund (an open-end investment company registered with the SEC under the Investment Company Act of 1940). The ticker symbols for PSI include: FPEAX, FPEIX, FPECX, FPEFX and FPERX. PSI seeks to provide current income and total return by investing, under normal market conditions, at least 80% of its net assets (including investment borrowings) in preferred securities and other securities with similar economic characteristics. PSI invests in securities that are traded over-the-counter or listed on an exchange. PSI may utilize hedging strategies solely to attempt to mitigate risk. For complete information please consult the PSI prospectus and associated documents.

### **Investment Management for the FT Multi Income Allocation Portfolio (“VIT2”)**

Stonebridge serves as a non-discretionary sub-advisor to the First Trust Multi Income Allocation Portfolio (VIT2) (a variable annuity fund organized in 2014 that is the second series of the First Trust Variable Insurance Trust), by providing model portfolios to this fund. VIT2’s primary

investment objective is to maximize current income, with a secondary objective of capital preservation. For complete information please consult the VIT2 prospectus and associated documents.

### **Investment Management for Separately Managed Accounts (“SMAs”)**

Stonebridge offers discretionary management services to separately managed accounts of preferred securities portfolios for individual and institutional investors, and to non-profit organizations. We generally seek to maximize total return, with a particular emphasis on income, in each investor’s selected strategy through strategic selection primarily of preferred, hybrid and other approved securities, including exchange-listed securities and over-the-counter traded securities. Stonebridge’s investment process is a combined bottom-up and top-down approach to security selection that encompasses three significant areas: credit analysis, relative value analysis, and technical analysis. The bottom-up analysis focuses on individual security analysis, idiosyncratic risks, credit fundamentals, market inefficiencies and opportunistic trading. The top-down analysis focuses on sector and industry analysis, duration and interest rate analysis, capital structure positioning and systematic risks.

Wrap fee programs sponsored by financial advisors (“WRAP”) offer Stonebridge products through both SMA offerings and Unified Managed Accounts (“UMAs”). Both SMAs and UMAs are managed to the same models to the extent possible given WRAP-platform-imposed restrictions on UMAs.

All UMA and SMA strategies are managed in a long-only approach, unless customized by SMA investors.

Stonebridge has developed the investment strategies described below to meet different investors’ needs. Maximization of total return, income, and preservation of capital are common objectives of all the strategies. Our portfolio managers may deviate from the guidelines for any of the strategies to seek to maximize total return or to protect investor account assets.

The portfolio managers may invest in a mix of different preferred security structures, hybrid securities, and other types of comparable investments approved by Stonebridge including, but not limited to, corporate bonds, convertible bonds, contingent convertible capital instruments (“CoCos”), and/or \$25 par “baby bonds” to help meet the investment strategies’ objectives. Also, if market conditions dictate, a higher percentage of cash or cash equivalents may be considered for a strategy.

Stonebridge generally requires a minimum of \$250,000 of assets for separately managed accounts that are sponsored through an approved WRAP Program. We generally require a minimum of \$10 million of assets for the Stonebridge Institutional Preferred Securities SMA strategy. Accounts greater than \$50 million will be considered for a separate customized institutional preferred securities strategy. We reserve the right, in our sole discretion, to make agreements with WRAP programs or accept individual accounts that are below our stated minima.

Although we manage a tax-advantaged strategy (the QDI strategy described below), the tax advantages we seek are attributes of the securities we select and are unrelated to the individual investor tax circumstances. We do not give tax advice to anyone. Investors should consult with

qualified tax professionals concerning the tax treatment of their individual investment portfolios.

Stonebridge does not hold any of the securities we purchase on behalf of clients for its own account, and does not provide custodial services to any clients. As such, we do not participate in, offer advice regarding, or engage in the notification process of, any class-action lawsuits that may occur regarding securities in investor portfolios. If we become aware of a lawsuit affecting a company in our models, we consider that information with regards to potential effects on performance, as we do other factors.

Not all strategies listed below are available on all WRAP Program platforms. If you are investing through a WRAP Program, please check with your financial advisor to see if they offer a particular strategy.

Standard Taxable Preferred Securities Strategy seeks to maximize preferred income, with a secondary objective of total return, for investors by generally investing in preferred, hybrid and other approved securities that pay dividends and interest. This strategy offers a diversification alternative to corporate bonds and other fully taxable fixed-income investment strategies. Investors looking to maximize income from diversified preferred security portfolio on a pre-tax basis would be well-suited for this strategy. Examples of typical investors are pension funds, endowments, foundations, and 401k or IRA accounts for high-net-worth individuals.

Tax-Advantaged QDI Preferred Securities Strategy seeks to maximize tax-advantaged preferred income, with a secondary objective of total return, for individual investors (not corporations) in their portfolios by generally investing in tax-advantaged preferred, hybrid and other approved securities that pay Qualified Dividends Income (QDI)<sup>1</sup>. This strategy is a diversification alternative to municipal bonds and other tax-advantaged fixed income investment strategies. To increase diversification within this strategy we also invest in hybrid and other approved securities that may not pay dividend income that qualifies for QDI treatment. Only individuals can claim tax benefits from investing in QDI securities, making this strategy well-suited for high net worth individual investors looking for tax-advantaged income from a diversified preferred security investment portfolio.

Institutional Preferred Securities Strategy seeks to maximize income, with a secondary objective of total return, by generally investing in institutional (\$1000 par) and exchange-traded (\$25 par) preferred, hybrid and other approved securities that pay dividends and interest. Examples of typical investors are pension funds, insurance companies, endowments, foundations, and ultra-high-net-worth individuals that can generally allocate \$10 million or more to this strategy.

\* \* \*

Stonebridge will typically follow the investment guidelines for SMA account portfolios set forth below, and will consider adjustments as requested in writing by particular investors on a case-by-case basis. Investor-requested adjustments will not be applied unless accepted by Stonebridge in writing. The investment guidelines for SMA accounts are as follows:

<sup>1</sup> QDI currently allows favorable tax treatment for dividends from U.S. corporations and qualified foreign corporations on securities held for a minimum of 91 days, during the 181-day period beginning 90 days before the ex-dividend payment. The maximum QDI tax rate is 20%. This favorable tax treatment is only available to individual investors. An additional 3.8% Medicare surtax on investment income may apply. Consult your tax advisor for details.

- Stonebridge will typically invest investor portfolio assets in securities of issuing firms (“issuers”) that have a long-term issuer credit rating of “investment grade” at the time of the investment. “Investment grade” is defined as having a long-term credit rating of “BBB-” or higher by Standard & Poor’s Rating Group (“S&P”), or “Baa3” or higher by Moody’s Investors Service, Inc. (“Moody’s”), or a comparable rating from another nationally-recognized statistical rating organization (“NRSRO”). We may also invest portfolio assets in securities that are unrated by an NRSRO if we determine such securities to be of acceptable credit quality. If a security receives divergent ratings from multiple NRSROs, Stonebridge will treat the issuing firm as being rated in the highest rating category received from any NRSRO. Stonebridge may invest in securities issued by below-investment-grade issuers or by unrated issuers, if our internal analysis leads us to conclude that a particular security has acceptable credit quality for the perceived relative value.
- The exposure of investor portfolios to any one issuer will generally be 8% or less.

\* \* \*

NRSRO ratings will generally be as posted on Bloomberg, or directly from the rating NRSRO.

In those cases where we permit an investor to fund an account with in-kind securities, we retain only those securities that fit Stonebridge’s strategies. We generally sell the remaining securities, at current market prices, without any further analysis, in order to produce cash for investment.

Any investment guidelines or strategy changes provided by an investor in writing, and accepted by Stonebridge in writing, take precedence over the above guidelines or strategies for that investor’s account.

Stonebridge may employ hedging strategies to reduce interest rate risk for qualified accounts. The strategies may include derivatives including interest rate swaps, U.S. Treasury futures, Eurodollar futures, and put and call options on U.S. Treasury and Eurodollar futures, or closed-end funds or ETFs investing in similar instruments or shorting U.S. Treasuries. Hedging is not applied to all accounts. If you are interested in employing hedging, please contact Stonebridge to see if your account is eligible to be included in hedging strategies.

For each of the SMA strategies described above, Stonebridge may invest up to 8% of a non-ERISA investor’s portfolio in exchange-traded funds (ETFs), including FPE, and closed-end funds (CEFs), that are either primarily invested in preferred securities or in cash equivalents (such as ETFs that invest in short-term treasuries). Under normal circumstances, no more than 5% of the portfolio will be invested in any single such vehicle. In client-directed tax-harvest situations, the 5% limit may be breached by short-term investment of tax harvest proceeds in FPE. If this is done, investors need to be aware that the underlying ETF (including FPE) or CEF may charge additional investment management fees that are separate and distinct from the investment management fees charged for Stonebridge’s SMA services.

We may also develop custom strategies not described herein for some investors. In such cases, a custom strategy description will be provided directly to the investor.



### **Investment Management for Unified Managed Account Strategies (“UMAs”)**

Stonebridge offers model portfolio strategies to certain WRAP account UMA platform sponsors. These strategies may be used by the financial advisors that participate on such UMA platforms with their advisory investors. When directed by contract, Stonebridge may also arrange for the execution of securities trades to implement the platform’s UMA strategies.

WRAP-sponsored SMAs and WRAP-sponsored UMAs are managed to the same models, to the extent possible given WRAP-platform-imposed restrictions on UMAs. To ensure fairness to both SMA and UMA investors, Stonebridge generally prepares model changes after the close of trading and distributes them to all UMA platforms so that as of the opening of trading on the following day, all UMA platforms and Stonebridge-managed SMA accounts are able to begin trading the new model simultaneously.

When intra-day trading opportunities present themselves for which model changes should not be delayed until the next day, it is not feasible to make intra-day model changes prior to executing the trades due to liquidity limitations in the preferred market and constraints in the model-change system. Therefore any model changes made are distributed to the UMA platforms no later than overnight.

The investment guidelines for SMAs presented above also apply to our construction of UMA models unless a platform specifically requires otherwise. UMA platform providers may or may not choose to follow Stonebridge’s recommendations. Please check with your UMA platform provider for details concerning your particular UMA platform.

### **Other Factors Regarding Investment Management Services**

Stonebridge may utilize model portfolios as guidelines in managing separately managed accounts in each of its strategies. The models can change at any point in time based on our research, investment management decisions and outlook. We generally attempt to manage each portfolio to the particular model for the investor’s chosen investment strategy. However, due to a number of reasons, some within and some beyond the control of Stonebridge, investor portfolios will frequently not look exactly like the chosen model. For example, investor-imposed investment restrictions may create dispersion in performance and securities holdings when compared to the model portfolio for the investor’s selected strategy.

Furthermore, due to security-specific characteristics, it may not always be prudent or practical to sell or purchase an entire position in a short period of time. In such cases, Stonebridge will use its professional judgment to bring the investor’s account in line with the model in a prudent manner.

There may also be situations in which investor portfolios may be temporarily unable to engage in certain securities transactions due to such things as restrictions on securities or systems or data issues at an investor’s WRAP program sponsor. In such cases, Stonebridge will begin effecting transactions for the affected accounts once it has been advised by the investor’s WRAP program sponsor that the issue(s) have been resolved.

Finally, a highly liquid market is the most conducive environment for trading investor portfolios based on a model portfolio, but not all preferred, hybrid and other approved securities are highly

liquid. Rather than systematically avoiding the inclusion of less liquid securities in our models, we may treat models as flexible guidelines, making what are in our judgment compatible investment decisions as market conditions present themselves. For these reasons, we do not make model portfolios available for public review.

### **Sub-Portfolio Supervision for Unit Investment Trusts (“UITs”)**

First Trust Portfolios L.P. (“FTP”) is the sponsor of and portfolio supervisor for unit investment trusts (“UITs”). Each UIT is an investment company registered under the Investment Company Act of 1940. Certain of these UITs invest exclusively in preferred securities and other securities closely followed by Stonebridge. Stonebridge may take the role of non-discretionary sub-portfolio supervisor for these UITs, and in this role may collaborate with FTP in the selection of the UIT’s initial portfolio of securities. At FTP’s request, we may also monitor the portfolios of the UITs and notify FTP if, based on specific criteria provided by FTP, we think that certain securities should be removed from a UIT. Our authority is limited to providing our opinion to FTP within the boundaries described; we do not have discretion over investment decisions of the UITs. Accordingly, the asset totals for these UITs are described above as “supervised on a non-discretionary basis”.

### **Item 5 – Fees and Compensation**

Stonebridge’s fee schedule for SMAs and UMAs is generally as follows:

<b><u>Value of Portfolio</u></b>	<b><u>Annual Management Fee</u></b>
Up to \$50 million	0.40%
Over \$50 million	Negotiable

We reserve the right to deviate from the above schedules on a case-by-case basis.

For First Trust Funds sub-advised by Stonebridge (PSI, FPF, FPE, FPEI and VIT2), management fees are payable to First Trust by the investor. Such fees are disclosed in those funds’ respective prospectuses.

\* \* \*

Stonebridge does not have custody of investor assets. Therefore, our billing is primarily handled through our investors’ custodians. We may bill the custodians for our advisory fees either in advance or in arrears, depending on the terms specified in the advisory contract. For investors associated with WRAP programs, the manner of billing is dependent upon the WRAP program sponsor.

Investors on a WRAP single contract platform (i.e. investors whose advisory contracts are only with the WRAP platform provider and not with Stonebridge directly) should examine their agreements with the WRAP program sponsor to determine the exact manner in which fees are assessed and billed by the WRAP program sponsor.

Investors on a dual-contract platform (i.e. investors whose advisory contracts are with both the WRAP platform provider and with Stonebridge), or investors that have single contracts directly

with Stonebridge, should review their advisory contract with Stonebridge to determine the exact manner in which fees are assessed and billed.

When Stonebridge is responsible for assessing fees, if the method of billing is specified as “in arrears”, we will assess our management fees based on the market value of the investor’s account at the end of the preceding calendar quarter. If the account has been under management for less than the full quarter, the fee will be prorated for the partial period. If we are unable to collect the account’s final fee payment by billing the investor’s custodian (which most often occurs when an investor’s custodial account has been terminated), we will bill the investor directly for the final fee.

When Stonebridge is responsible for assessing fees, if the method of billing is specified as “in advance”, we will assess the first management fee based on the value of the assets when the account is first received, and then at the beginning of each subsequent calendar quarter based on the value of the assets in the account at the end of the preceding quarter. If the account will be under management for less than the full quarter, the fee will be prorated for the partial period. If the account is terminated prior to the end of the calendar quarter, the fee will be prorated to the termination date and either a bill for unpaid fees owed or a refund of the excess prepaid fee will be issued.

Stonebridge’s advisory fees for SMAs do not include brokerage commissions, transaction fees, and other related costs and expenses that may be incurred by the investor, such as charges imposed by custodians, brokers, and other third parties, fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange-traded funds also charge internal management fees, which are disclosed in those funds’ prospectuses. Such charges, commissions, fees and costs charged to SMA and fund investors are exclusive of, and in addition to, Stonebridge’s fee, and we do not receive any portion of these charges, commissions, fees, and costs (except in those cases where a portion of a portfolio’s assets are invested in a fund sub-advised by Stonebridge).

Please refer to Item 12 below for a description of the compensation (e.g., commissions, if any) charged by broker-dealers.

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

Stonebridge does not charge any investors performance-based fees (fees based on a share of capital gains on or capital appreciation of investor assets).

## **Item 7 – Types of Investors**

Stonebridge offers portfolio management services to high net worth individuals, insurance companies, banks, thrift institutions, investment companies, pension and profit-sharing plans, trusts, estates, charitable institutions, foundations, endowments, corporations and similar entities, and to other individuals through WRAP programs. Minimum account sizes are discussed in Item 4 above.

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

### Methods of Analysis:

Stonebridge's research and investment personnel review and study many types of research information and may attend investment seminars, conferences and private meetings with “Street” research analysts or company management, at which they receive market and economic information relevant to the management of investor accounts. Our research and investment staff engages in several methods of analysis, including fundamental analysis, technical market analysis, and relative value analysis.

### Investment Strategies:

The investment strategies used by Stonebridge are detailed in Item 4 above.

### Risk of Loss:

*General Investment and Trading Risks.* Investing involves a risk of loss that investors should be prepared to bear. Investors should be aware of the following risks, among others, which may be relevant to Stonebridge’s management of investor portfolios. No guarantee or representation is made that the firm’s investment strategies will be successful.

*Strategy Risk.* Strategy risk is the potential for deterioration of the economic viability of an entire strategy. Strategy-specific losses can result from excessive concentration in the same investment approach or within a particular industry. General economic or political events can also adversely affect particular strategies (e.g., illiquidity within a given market).

*Credit Risk.* Credit risk is the risk that an issuer of a security will be unable or unwilling to make dividend, interest and principal payments when due, and the related risk that the value of a security may decline because of the concerns about the issuers ability to make such payments.

*Economic Conditions Risk.* The success of any investment activity will be affected by general economic conditions which affect the level and volatility of prices as well as the liquidity of the markets. The prices of many securities and derivative instruments are highly volatile. The price movements of the instruments which Stonebridge may acquire or sell on behalf of its investors may be influenced by, among other things, interest rates, changing supply and demand relationships, the trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events. Governments from time to time intervene, directly and by regulation, in certain markets (particularly those in currencies and interest rates), thereby disrupting strategies focusing on these sectors. Unexpected changes (in either direction) in the volatility or liquidity of the markets in which investors hold positions could cause significant losses.

*Interest Rate Risk.* Interest rate risk is the risk that the value of fixed-income securities will decline in value because of rising market interest rates. Interest rate risk is generally lower for shorter duration investments and higher for longer duration investments.

*Illiquid Securities Risk.* Some of the securities held in Stonebridge-managed investment portfolios may be illiquid. Illiquid securities involve the risk that the securities will not be able to be sold

at the time desired by the investor, or at prices approximately the value at which the investment portfolio is carrying the securities on its books.

*Income Risk.* If interest rates fall, the income from investment portfolios will decline as Stonebridge invests the proceeds from share sales, or from matured or called debt securities, at yields that are below the portfolio's current earnings rate.

*Concentration Risk.* An investment portfolio that is concentrated in a single industry or sector is likely to present more risks than an investment portfolio that is broadly diversified over several industries or sectors. Compared to the broad market, an individual industry or sector may be more strongly affected by changes in the economic climate, broad market shifts, moves in a particular dominant stock, or regulatory changes. Stonebridge investment strategies are concentrated in the financial sector.

*Non-U.S. Securities Risk.* Investment portfolios may invest in securities of non-U.S. issuers, including Additional Tier 1 Contingent Convertible Capital Securities (AT1/CoCos). An AT1/CoCo differs from a U.S. bank preferred stock by containing a contractual mechanism for principal writedown/conversion into equity in the event of reaching capital triggers or bank regulatory intervention. AT1/CoCos may be subject to higher volatility than U.S. bank preferred stock or other securities, including during times of financial market or banking system stress. Non-U.S. securities may be subject to higher volatility than securities of domestic issuers due to possible adverse political, social or economic developments, restrictions on foreign investment or exchange of securities, lack of liquidity, currency exchange rates, excessive taxation, government seizure of assets, different legal or accounting standards, and less government supervision and regulation of exchanges in foreign countries. These risks may be heightened for securities of companies located in, or with significant operations in, emerging market countries.

*Preferred Securities Risk.* An investment in preferred securities involves risks not associated with an investment in common stocks. Particular risks include:

- **Limited Voting Rights.** Generally, holders of preferred securities have no voting rights with respect to the issuing company unless 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 the issuer pays all the arrearages, the preferred security holders no longer have voting rights.
- **Special Redemptions Rights.** In certain circumstances, an issuer of preferred securities may redeem the securities prior to a specified date. For instance, for certain types of preferred securities, a redemption may be triggered by a change in federal income tax or securities laws. As with call provisions, a special redemption by the issuer may negatively impact the return on the security held by investors.
- **Deferral.** Preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to itself. If investors own a preferred security that is deferring its distributions, they may be required to report income for federal income tax purposes even though they have not yet received such income in cash.
- **Subordination.** Preferred securities are subordinated to bonds and other debt instruments

in a company's capital structure in terms of priority of rights to corporate income and liquidation payments, and therefore will be subject to greater credit risk than those debt instruments.

- **Liquidity.** Preferred securities may be substantially less liquid than many other securities, such as common stocks or U.S. government securities.

*Trust Preferred Securities Risk.* Unlike preferred stocks, distributions from trust preferred securities are treated as taxable interest rather than dividends for federal income tax purposes. Distributions on trust preferred securities will be made only if interest payments are made on the related interest-bearing notes of the operating company. Because a corporation issuing the interest-bearing notes may defer interest payments on these instruments for up to 20 consecutive quarters, if such an election is made distributions will not be made on the trust preferred securities during the deferral period. Further, certain tax or regulatory events may trigger the redemption of the interest-bearing notes by the issuing corporation and result in prepayment of the trust preferred securities prior to their stated maturity date.

*Fixed-Income Securities Risk.* The risks related to investments in fixed-income securities include the risk that certain of the securities may not have the benefit of covenants which would prevent the issuer from engaging in capital restructurings or borrowing transactions in connection with corporate acquisitions, leveraged buyouts or restructurings. This could reduce the ability of the issuer to meet its payment obligations and might result in increased credit risk. In addition, certain securities may be redeemed or prepaid by the issuer, resulting in lower interest payments received by investors.

*Issuer Specific Changes Risk.* The value of an individual security or particular type of security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole.

*Convertible Securities Risk.* Because convertible securities have characteristics of both equity and debt securities they are exposed to certain additional risks. The market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. A convertible security's market value also tends to reflect the market price of the common stock of the issuing company, particularly when the stock price is greater than the convertible security's conversion price (i.e., the predetermined price or exchange ratio at which the convertible security can be converted or exchanged for the underlying common stock). Convertible securities are also exposed to credit risk. Due to their potential for capital appreciation, convertible securities generally offer lower interest or dividend yields than nonconvertible debt securities of similar credit quality.

Mandatory convertible securities are a subset of convertible securities. The conversion of such securities is not optional, and the conversion price at maturity is based solely upon the market price of the underlying common stock, which may be significantly less than par or the price (above or below par) paid. Mandatory convertible securities generally are subject to a greater risk of loss of value than securities convertible at the option of the holder.

*Derivatives Risk.* In certain circumstances, Stonebridge may use derivatives to hedge against interest rate risk. The use of derivatives presents risks different from, and possibly greater than,

the risks associated with investing directly in traditional securities, including market risk, credit risk, management risk and liquidity risk. The use of derivatives can lead to losses because of adverse movements in the price or value of the underlying asset, index or rate, all of which may be magnified by certain features of the derivatives. In addition, when investors invest in certain derivative securities, including, but not limited to, forward commitments, when-issued securities, futures contracts and interest rate swaps, they are effectively leveraging their investments. This can result in exaggerated changes in the value of the investor's portfolio which could result in significant losses.

The success of the Firm's derivatives strategies depends on its ability to assess and predict the impact of market or economic developments on the underlying asset, index or rate, and on the derivative itself. Liquidity risk exists when a security cannot be purchased or sold at the time desired, or cannot be purchased or sold without adversely affecting the price.

*Management Risk.* Investors are subject to management risk because their portfolios are actively managed. Stonebridge will apply investment techniques and risk analyses in making investment decisions for investors, but there can be no guarantee that investors will achieve their investment objectives.

*Dependence on Key Personnel Risk.* Stonebridge is dependent upon the experience and expertise of certain key personnel in providing advisory services to investors. If we were to lose their services, our ability to advise investors could be adversely affected. There can be no assurance that a suitable replacement could be found for key personnel in the event of death, resignation, retirement or inability to act on behalf of Stonebridge.

*Inflation Risk.* Inflation risk is the risk that the value of assets or income from investments will be less in the future as inflation decreases the value of money. As inflation increases, the value of investor's assets can decline.

Investors should be aware that each investment strategy offered by Stonebridge may not achieve its objectives under negative market conditions which could prevail for substantial periods of time after an investor allocates assets to a particular strategy.

For information related to the risks of investments specific to investment companies to which Stonebridge provides investment advice, please refer to the associated fund's prospectus.

## **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 the integrity of the firm's management. Stonebridge has no information applicable to this Item.

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

Stonebridge's affiliations with broker-dealers, investment advisers and investment companies are as follows:

- As previously stated above in Item 4, a majority interest in Stonebridge is owned by First Trust Capital Partners LP (FTCP).
- Stonebridge is also affiliated, through being under common upstream ownership, with First Trust Portfolios L.P. (FTP), a registered broker/dealer and the sponsor of the First Trust series of unit investment trusts.
- Stonebridge serves as discretionary sub-advisor to the First Trust Preferred Securities and Income Fund, the First Trust Preferred Securities and Income ETF, the First Trust Institutional Preferred Securities and Income ETF, the First Trust Intermediate Duration Preferred & Income Fund, and as non-discretionary sub-advisor (model provider only) to the First Trust Multi Income Allocation Portfolio (collectively the “Funds”). The Funds are advised by First Trust Advisors L.P. (FTA) a registered investment adviser and an affiliate of FTP. FTA is under common control with FTP.
- Stonebridge Asset Management, LLC (SAM) is a private family office of Scott Fleming and a partial owner of Stonebridge. Mr. Scott T. Fleming is the Chief Executive Officer of Stonebridge and also the owner and Chief Executive Officer of SAM.
- First Trust Global Portfolios Limited (FTGP) is an investment adviser registered in the United Kingdom. FTGP is under common control with FTP.

The following directors or officers of Stonebridge are also officers or directors of First Trust and its affiliates, as described below:

- Mr. James A. Bowen is the Chairman of the Board of Stonebridge, the Chief Executive Officer of FTCP, FTP and FTA, and a Director of FTGP and FTGPM.
- Mr. James Dykas is the Chief Financial Officer of FTCP, FTP, FTA, FTIS and Stonebridge,
- Mr. W. Scott Jardine is the Secretary of Stonebridge and FTCP, and is General Counsel of FTP, and FTA.

## **Item 11 – Code of Ethics**

We have implemented a Code of Ethics (the “Code”) containing policies and procedures, summarized below, designed to minimize activities of Stonebridge personnel that may create a conflict of interest with investors, and to disclose any conflicts that do exist.

Stonebridge does not buy or sell securities for its own account. Employee investment in securities having a preferred aspect, which is to say, securities that are likely to be contained in Stonebridge models and portfolios, is limited to investment in the funds managed by Stonebridge, and then only with Chief Compliance Officer (“CCO”) pre-approval. Further, the Code prohibits an employee from participating in an Initial Public Offering of any security or to participate in private placement offerings without advance approval by the CCO.



Under our Code, Stonebridge employees are required to notify the CCO of any account containing reportable securities over which they have a direct or indirect beneficial interest, and to arrange for the provision of duplicate account statements to the CCO.

The Code also requires each Stonebridge employee, within ten days of hire and also within 30 days of the end of each quarter, to provide the CCO a list of securities held and/or copies of account statements for each account through which the employee may invest in securities (e.g.: brokerage accounts). Stonebridge personnel are also required to abstain from the unlawful use of material non-public information, and to certify annually that each has read, understands and agrees to abide by the Code.

A copy of our Code of Ethics is available to investors and prospective investors upon request.

## **Item 12 – Brokerage Practices**

Each discretionary investor grants Stonebridge the authority to manage the investor’s portfolio consistent with the investor’s selected investment strategy, and subject to any investor-imposed restrictions that are acceptable to Stonebridge. This authority includes the power to determine which securities to purchase or sell and the amount and price of each transaction. The terms of the grant of authority to Stonebridge are provided in each investor’s investment advisory contract.

Non-discretionary investors limit Stonebridge’s authority by contract.

Because the WRAP program fee includes trading commissions for those trades done through the WRAP fee provider’s platform, Stonebridge generally, for day-to-day account maintenance (e.g.: investing new money, raising cash, account rebalancing, etc.) executes trades for SMA clients through the WRAP platform. However, if the envisioned trade cannot reasonably be carried out on the WRAP platform due to inability for best price execution, liquidity and/or other factors, then Stonebridge will execute the trade using a “step-out” or “trade-away” transaction with another broker-dealer.

When selecting broker-dealers for a discretionary brokerage investor’s trades, or for step-out/trade-away transactions, Stonebridge will seek “best execution” by considering factors such as relative value, security type, transaction size, desired timing, potential market impact of the transaction, overall execution capability of the broker-dealer, transaction costs, including commission rates (which are applicable only to exchange-traded securities) and level of markups/markdowns (when known), broker-dealer reputation and financial stability, the operational compatibility of the firm with Stonebridge, and other factors that we may consider important in a particular circumstance. In general, we will direct transactions to those firms which we reasonably believe will provide the best net price for investors, but price is not the ultimate determinant of best execution, and the other qualitative factors described may be decisive in any given transaction. It should be noted that step-out/trade-away transactions with broker-dealers generally do not result in the charge of sales commissions to investor accounts, as the security classes in which Stonebridge invests are traded on a negotiated price basis that include any broker mark-ups in the price, without added trading commissions.

For WRAP platform trading, we may elect to aggregate orders in a security for multiple investors on the same WRAP platform into a single order if we reasonably determine that such aggregation will result in best execution. In this circumstance, we generally allocate pro-rata to investor accounts using the average share price.

For step-out/trade-away transactions, we may elect to aggregate orders in a security for multiple investors on multiple WRAP platforms into a single block order if we reasonably determine that such aggregation will result in best execution. In this circumstance, we generally allocate the transaction pro-rata to investor accounts using the negotiated transaction price.

If an aggregated order is partially filled substantially enough that there are sufficient purchases or sales to allocate a reasonable number to each investor, the investor allocations will be pro-rata. If the partial fill is too small, then allocations will be random.

For SMA accounts, in the event that investor-directed liquidations in certain accounts have created a negative cash balance, allocations of sales will be preferentially made to those accounts to bring them to a zero deficit, and the remainder of sales will be allocated randomly. If an account is excessively high or low on cash due to additions or withdrawals of cash, then that account may take priority before the random fills are assigned.

Odd lots of institutional issues (\$1000 par) may be difficult to trade which may result in a sale price at a concession to the market. Pro-rata allocations of partial purchases and sales of institutional securities are rounded to the nearest \$100,000 (rounding up \$50,000 and greater), where possible.

With regards to the distribution of model changes to UMA platform providers, as discussed in Item 4, above, Stonebridge generally prepares SMA and UMA model changes after the close of trading and distributes them to all UMA platforms so that as of the opening of trading on the following day, all UMA platforms and Stonebridge-managed SMA accounts are able to begin trading the new model simultaneously.

When intra-day trading opportunities present themselves for which model changes should not be delayed until the next day, it is not feasible to make intra-day model changes prior to executing the trades due to liquidity limitations in the preferred market and constraints in the model-change system. Therefore any model changes made are distributed to the UMA platforms no later than overnight.

As a matter of policy, Stonebridge does not have any “soft dollar” arrangements to receive products, services or research in exchange for directing transactions to any broker-dealer.

### **Item 13 – Review of Accounts**

As an investment manager specializing in preferred and hybrid securities, our expertise is focused on managing portfolios placed with us in this asset class. Our expertise does not extend to providing advice regarding an overall portfolio asset allocation strategy. Determination as to the suitability of preferreds in a potential investors’ asset allocation strategy, and the amounts to be allocated are made by the investor and should be done in consultation with their financial

advisors or other investment consultants whose area of expertise includes advising on an overall investment portfolio asset allocation strategy. Our strategies do not consider your income, debt, assets held outside of the account, concentration in any security, or other financial considerations, and as such are not a complete investment program and may not be suitable for all investors. Once you have determined with your financial advisor (1) that preferreds are suitable for your overall investment portfolio, (2) the amount you intend to allocate to preferreds, and (3) which specific Stonebridge strategy you choose for investment, then the suitability of specific securities will be handled by Stonebridge and will be considered relative to the investment guidelines of your selected strategy and/or custom client provided investment guidelines.

All portfolios or models except UIT portfolios are subject to review on a periodic basis by the investment team, which assesses current market conditions and considers how they may affect portfolio positioning. Based on these reviews, for accounts over which Stonebridge has discretion, Stonebridge may decide to adjust the holdings in investors' accounts. For accounts over which we do not have discretion, we may decide to adjust the models we provide to the UMA platform sponsors.

Investors will receive a written account statement directly from the broker-dealer or custodian of their accounts, which will detail all transaction activity in their accounts. For further information, see Item 15 below.

Investors are advised and encouraged to inform their financial advisor on an ongoing basis of changes in their financial situation, investment objectives, risk tolerance, and whatever other factor that may affect decisions regarding their preferred asset allocation.

For the UIT portfolios we are a non-discretionary sub-portfolio supervisor. If requested by the portfolio supervisor, we may review portfolio holdings for adverse changes (such as ratings downgrades, etc.). In cases of severely adverse change, Stonebridge may recommend that a security be liquidated from a UIT portfolio. FTP has sole discretion over these portfolios and ultimately determines whether or not it will follow Stonebridge's recommendations.

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

Stonebridge has entered into an agreement to compensate a third party affiliate ("Promoter") for client referrals. This agreement is with First Trust Portfolios L.P. (FTP), an affiliate described in Item 10 above, whereby FTP is compensated for accounts brought into Stonebridge through the work of FTP's wholesalers. The material terms of the agreement shall be disclosed to investors at the time of investment or before or at the time of execution of an investment management agreement, as required under Rule 206(4)-1 of the Investment Advisers Act of 1940.

#### **Item 15 – Custody**

Stonebridge never accepts and does not have custody of investor assets, either cash or securities. Investors should receive at least quarterly written statements from the broker dealer, bank or other qualified custodian that holds and maintains custody of the investor's assets. Stonebridge

does not supply written statements to all of its investors. If your contract with Stonebridge provides for you to receive written statements directly from Stonebridge, we urge you to carefully review and compare such statements to the records provided to you by your custodian. For legal purposes, the custodial record is the official record. You should note, therefore, that the cost basis of your securities for tax purposes must be obtained from your custodial statements. Statements prepared and distributed by Stonebridge may vary from custodial statements due to differences in accounting methods (e.g. high-cost versus First-In/First-Out accounting), reporting dates, or valuation methodologies of certain securities. Stonebridge bills custodians for the advisory fees owed to us for the services that we provide to our investors whose accounts are housed with that custodian, and does not have the ability to directly access investor assets to pay our fees. If a custodian does not pay the bill when submitted, Stonebridge may send a bill directly to the investor for any unpaid fees.

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

At the outset of an advisory relationship Stonebridge generally receives discretionary authority from the investor to select securities, to purchase or sell securities, to reinvest cash, and to exercise rights associated with securities, including the amount and price of such securities. We exercise this discretion using our best judgment, in a manner consistent with the investor's selected investment strategy, and subject to any investor-imposed restrictions that are accepted by Stonebridge, or the fund prospectus. When the investor is a registered investment company, Stonebridge's discretionary authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Investor investment guidelines and restrictions must be provided to Stonebridge in writing, for Stonebridge's consideration as to whether or not we are able to effectively manage an account having such restrictions.

### **Item 17 – Voting Investor Securities**

The preferred securities in which we generally invest do not normally carry proxy voting rights, and we do not anticipate acquiring equity securities that have such rights. But in the event that a proxy vote is solicited on a security held in a Stonebridge-managed portfolio, Stonebridge will strive to cast its vote in the best interests of the investor, following the proxy voting guidelines detailed in our Proxy Voting Policy.

We will abstain from voting (which generally requires submission of a proxy voting card) or affirmatively decide not to vote if we determine that abstaining or not voting is in the best interests of the client or is immaterial to the client. In making such a determination, we will consider various factors, including, but not limited to: (i) the costs associated with exercising the proxy; (ii) any legal restrictions on trading resulting from the exercise of a proxy; and (iii) if we have only transitory possession of the security for which the proxy is solicited.

From time to time, investors may be permitted to fund an account with in-kind securities. In such circumstances, we review the in-kind portfolio, retain those securities that fit Stonebridge's

strategies, and sell the remaining securities (for which we may have no particular expertise) at current market prices in order to produce cash which can then be invested in strategy-appropriate securities. Where a proxy vote solicitation is received for a security that was received in-kind and that does not fit within any of Stonebridge's stated investment strategies and is slated for immediate sale without further analysis, we will affirmatively decide not to vote such proxy because we do not have expertise on the security, and the proxy vote will have no impact on the security while under the client's ownership.

Investors may obtain a complete copy of Stonebridge's current Proxy Voting Policy as well as information relating to how proxies were voted by contacting us at 203-762-0004.

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

As of the date of this Brochure, Stonebridge has no financial commitment that impairs its ability to meet its contractual and fiduciary commitments to investors, and has not been the subject of a bankruptcy proceeding.

## **Additional Information**