

## **Form ADV Part II (Brochure)**

A disclosure document for clients of investment advisers

### **Item 1 - Cover Page**

# **Miles Capital, Inc.**

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515-453-8400

Miles-Capital.com

March 31, 2011

This Brochure provides information about the qualifications and business practices of Miles Capital. If you have any questions about the contents of this Brochure, please contact us at 515-453-8400 or at [info@miles-capital.com](mailto:info@miles-capital.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.

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

## Item 2 – Material Changes

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure dated March 31, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

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 Vera Lichtenberger, Chief Compliance Officer, at 515-453-8400 or [info@miles-capital.com](mailto:info@miles-capital.com). Our Brochure is also available on our web site [www.Miles-Capital.com](http://www.Miles-Capital.com), also free of charge.

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

### Item 3 -Table of Contents

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

## **Item 4 – Advisory Business**

Miles Capital, Inc, (Miles Capital) is a registered investment adviser. It is a wholly owned subsidiary of Miles Holdings, Inc., an Iowa corporation. David Miles is the Chief Executive Officer of Miles Capital, and the principal owner of Miles Holdings, Inc.

Guided by the principles of client service, integrity and investment performance, the people of Miles Capital have successfully served insurance companies, institutions, municipalities and government agencies, foundations and endowments, retirement plans and individual investors since 1982.

Miles Capital provides investment supervisory services to its clients through customized portfolios of securities, which include equity securities (exchange-listed securities, exchange-traded funds, securities traded over-the-counter, and foreign issues); warrants; corporate debt securities; commercial paper; municipal securities; investment company securities (mutual funds shares); United States Government securities; and other securities. Other securities may include such items as convertible bonds, or preferred stocks. Miles Capital does not call any of its services financial planning or some similar term. Miles Capital provides investment advisory services for a percentage of assets under management.

Miles Capital provides regular and continuous services based on client needs. These services include, but are not limited to, the purchase, sale, retention or other disposition of securities. Periodic reporting to clients ranges from monthly to quarterly reports of performance. Client reporting may be done by the trustee, broker or custodian. Miles Capital imposes a \$10,000,000 minimum or \$50,000 minimum fee on new accounts. This restriction may be waived at the discretion of management.

Miles Capital serves as advisor in wrap accounts offered by unaffiliated broker-dealers. In such wrap accounts, Miles Capital provides advisory services and receives a percentage of the total wrap fee collected by an unaffiliated broker dealer. The broker dealer retains the remainder of the wrap fee for brokerage services, and administrative functions. The level of wrap fee is determined by the program sponsor and Miles Capital's portion of the fee is negotiated with each sponsor.

Miles Capital serves as an advisor for certain overlay portfolio management clients. In such overlay arrangements, a portion of client's total assets are placed in one or more specific composites for management. Fees are paid by the overlay sponsor directly to Miles Capital. The sponsor is responsible for broker selection and administration.

Termination of contracts is upon written notice given, by either party, depending on the contract, 10, 30, or 60 days in advance. Written notice of termination can be made in accordance with the contract to Amy Mitchell, Director, Administration, Miles Capital, Inc., 1415 - 28th Street, Suite 200, West Des Moines, IA 50266.

If a contract becomes effective or terminates before the end of any period, the investment management fee for the period from the effective date to the end of such period or from the

beginning of such period to the date of termination, as the case may be, shall be prorated. Any unearned fees collected in advance will be refunded. Any earned fees to be collected in arrears will be billed or collected from the account.

Clients must select a custodian to hold the assets in their account, which will be an additional cost (Miles Capital holds no client monies directly).

Miles Capital provides discretionary asset management to two (2) mutual funds. As to each fund, Miles Capital exercises discretion in the purchase and sale for securities consistent with the investment objectives and restrictions stated in the fund prospectus. Miles Capital's investment agreement with each fund is approved annually and may be cancelled by either party on sixty (60) days advance written notice.

The funds and their management fee arrangements are as follows:

Iowa Public Agency Investment Trust is a registered investment company founded in 1987 to provide a money market fund to assist Iowa cities, counties, and municipal utilities in their cash management needs. Miles Capital serves as the investment adviser for IPAIT, as well as its administrator. As advisor, Miles Capital receives an annualized fee payable monthly equal to 0.09% of the average daily net assets on assets up to \$150 million, declining to 0.07% for assets greater than \$150 million and less than \$250 million and declining to 0.55% for assets greater than \$250 million for each portfolio. Partial fee waivers are currently in effect for this fund.

The Institutional Money Market Fund (a fund of Miles Funds, Inc.) is a money market fund for educational institution investments. Adviser fees are 0.35% of the average daily net assets. Partial fee waivers are currently in effect for the fund.

In addition to the discretionary management of investment accounts, Miles Capital also provides investment and financial consulting services to clients, including assistance in establishing or reevaluating investment policies, reviewing and evaluating investment performance and portfolio consulting recommendations, including not-for-profit entities.

Miles Capital also provides administrator, fund accounting and transfer agency duties to mutual funds and local government investment pools. These duties include shareholder accounting, preparing and mailing monthly statements, transaction confirmations, information statements, calculation of net asset values, calculation and distribution of portfolio income, financial reporting, SEC filings, Chief Compliance Officer duties, etc. Miles Capital receives a fee for these services. Miles Capital also receives a fee for facilitating the placement of public fund deposits with financial institutions. The fee for processing this transaction varies by state and the program is named the Fixed Term Automated Program.

Miles Capital may purchase mutual fund shares or exchange traded funds for its clients, which results in the layering of management fees.

As of December 31, 2010, Miles Capital had \$3.6 billion in assets under its discretionary management.

## Item 5 – Fees and Compensation

All fees are subject to negotiation. Here is a sample fee chart:

		<u>Minimum Revenue</u>	<u>AUM</u>	<u>Fee (bps)</u>	<u>Sub-Advisory</u>
Large Cap Equity		\$50,000	First \$10 Million	65	50 bps
			Next \$15 Million	60	
			Next \$25 Million	50	
			Thereafter	45	
Diversified Equity Income		\$50,000	First \$10 Million	70	50bps
			Next \$15 Million	65	
			Next \$25 Million	60	
			Thereafter	50	
Small Cap		\$50,000	Next \$15 Million	85	50 bps
			Next \$25 Million	80	
			Thereafter	75	
			First \$10 Million	35	
Fixed Income		\$50,000	Next \$15 Million	30	35 bps
			Next \$25 Million	25	
			Thereafter	15	
			First \$25 Million	35	
Insurance		\$50,000	Next \$15 Million	30	Custom
			Next \$25 Million	25	
			Thereafter	15	
Asset Allocation Passive	AUM				
	First \$10 Million	Fee (bps)	50		
	Thereafter		25		Custom
Active Mgt. Overlay	Minimum	\$40,000			
	First \$10 Million		30		Custom
AA Models	Thereafter		25		
					60 bps

The specific manner in which fees are charged by Miles Capital is established in a client's written agreement with Miles Capital. Miles Capital will generally bill its fees on a quarterly basis. Clients may elect to be billed in advance or arrears each calendar quarter. Clients may also elect to be billed directly for fees or to authorize Miles Capital to directly debit fees from client accounts.

Management fees are not prorated for each capital contribution and withdrawal made during the applicable calendar quarter. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

Miles Capital's 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, third party investment and other third parties such as 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 a fund's prospectus.

Such charges, fees and commissions are exclusive of and in addition to Miles Capital's fee, and Miles Capital shall not receive any portion of these commissions, fees, and costs.

From time to time, clients may receive documents for filing of class-action claims related to litigation involving securities now held or previously held in a managed account. Unless otherwise agreed in writing between the client and Miles Capital, or otherwise required by law, the client retains the responsibility for filing the claim. Miles Capital has no obligation and assumes no responsibility for filing. Miles Capital will assist the client in filing claims, if so requested, for a fee of \$50.00 per filing. It will be the client's responsibility to determine if the claim is of sufficient value to warrant pursuit of the claim. Client must instruct Miles Capital, in writing, to initiate a claim.

Item 12 further describes the factors that Miles Capital considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (commissions). Item 4 further describes the advisory fees charged for mutual fund clients.

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

Miles Capital does 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**

Miles Capital provides portfolio management services to individuals, high net worth individuals, insurance companies and other corporations, banks, corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, municipalities, registered mutual funds, private investment funds, trust programs, and other U.S. and international institutions.

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

Our investment process has been honed through more than a quarter-century of faithful adherence to our disciplined investment model and our focus on risk-aware portfolio construction. We seek to provide investment strategies that identify and control risk while capitalizing on long-term economic, demographic and cultural trends, as well as fundamental shifts in business practices. We evaluate

holdings through our own fundamental research, a proven valuation model and access to outside resources.

## Investment Strategies

### Equity

The Miles Capital equity team manages nine equity strategies: Small Cap Core, Diversified Equity Income, Large Cap Diversified, Large Cap Value, and Large Cap Growth. Each strategy is managed according to the same investment philosophy and process. In particular, we believe that buying high quality stocks, trading at a reasonable valuation, at the right moment in time is the key to generating long term excess returns. In addition to mining for new stock ideas, the five member equity team concurrently manages, for each strategy, a well diversified model portfolio upon which all client portfolios are based. For each strategy, the process begins with sector-by-sector screening of the stocks in the relevant index. In this step, multi-factor analysis is applied to determine a multi-factor score for each stock in a sector, based on quality and valuation ratios and examination of price relative strength.

In the next step, fundamental analysis is applied to the top five scoring stocks in a sector. This includes the assessment of growth drivers, strengths & risks, and identification of short-term appreciation catalysts. The result is the identification of the two stocks with the best fundamental thesis. These two stocks are added to the Focus List, which is a list of the best two ideas in each sector. The equity team updates the multi-factor score and fundamental analysis on a weekly basis for each stock on the Focus List and for each portfolio holding.

In the final step of the process, the equity team swaps one of the best ideas on the Focus List with one portfolio holding that is exhibiting weakness in the multi-factor score or fundamental thesis. Also, the weight of a stock will be reduced to 2 percent if its weight in the portfolio appreciates to more than 3 percent. Further, a stock will be sold, without regard to fundamental factors, if its price underperforms the sector by more than 25 percent over the holding period. Based on these criteria, the equity team typically implements one swap per week. In addition to the implementation of swaps, key portfolio metrics such as sector diversification and tracking error, are monitored on a weekly basis. The combination of these steps results in a consistent repeatable process with a goal toward delivering excess returns over the market cycle.

### Fixed Income

The Miles Capital fixed income team manages twelve strategies, including: Low Duration, Intermediate Core, Intermediate High Quality, Intermediate Government, Core, and Cash.

Each strategy is managed according to the same investment philosophy and process. In particular, it uses a time-tested and proven fixed income investment philosophy and process to guide effective investment decisions and generate superior performance. Investment decisions are driven by the opportunity to capture additional returns while managing portfolio risk. Since 1982, the firm's philosophy has emphasized three central tenets:

- Capital preservations
- Risk-aware portfolio construction
- A focus on our long-term view of the economy and financial markets

Miles Capital's fixed income investment process begins with a disciplined top-down analysis of the global and domestic trends that influence the U.S. dollar denominated fixed income market. Our process further defines a desired level of interest rate risk, yield curve positioning, sector rotation and security selection. The selection of specific issues to be included in a portfolio is a bottom-up process which identifies the best securities within a sector or industry that already has been identified as attractive through the top-down analysis. Collectively, these decisions are combined with defined risk parameters to achieve an optimal portfolio. This process, consistently applied over time, has a goal of keeping benchmark tracking error to the benchmark low as well as a goal of delivering consistent returns in excess of the benchmark over the market cycle.

**All investments carry risks. These risks include:**

- **Market Risk: This is the risk that market influences will affect expected returns of all equities and bonds in ways that were not anticipated.**
- **Interest Rate Risk: This is the risk that returns will be better or worse than expected because of changes in the level of interest rates.**
- **Credit Risk: This is the risk associated with the ability of the firm that issues securities to meet its obligations on those securities.**
- **Security Selection Risk: This is the risk that the security selected does not perform as well as other similar securities.**

**Past performance is no guarantee of future performance. An investment is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.**

## **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 Miles Capital or the integrity of Miles Capital's management. Miles Capital has no information applicable to this Item.

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

Miles Capital also serves as administrator and provides fund accounting and transfer agent services to mutual funds and local government investment pools, for which it is separately compensated.

Miles Capital is the adviser, administrator, and program support provider for the Iowa Public Agency Investment Trust ("IPAIT"). Founded in 1986, IPAIT is a diversified open-end investment company (operated as a Rule 2a-7 money market fund) designed exclusively for the public agencies in the State of Iowa.

Miles Capital is the adviser, administrator, fund accountant, and transfer agent for the Institutional Money Market Fund (a fund of Miles Funds, Inc.) It is a money market funds.

Miles Capital has solicitors' agreements in place with certain broker/dealers and their representatives that spell out the payment of finder's fees. There are agreements, in writing, submitted to the clients displaying "a finder's fee" paid to their registered representative of a broker/dealer when a referral is made by the registered representative to Miles Capital and paid by Miles Capital.

Miles Capital utilizes independent representatives to solicit new accounts. These representatives are paid a commission/service fee based upon a percentage of the investment advisory fee collected by Miles Capital.

Employees of Miles Capital may serve on Boards of Advisors, Trustees or Directors of clients for which they may or may not receive fees. These fees are for services rendered by the employee and are not considered investment advisory fees, although in a capacity as a board member or advisor, investment advice may be offered.

Referral agreements will comply with Rule 206 (4) - 3. Each client is given a copy of the referral agreement prior to or at the time of entering into any advisory contract.

Miles Capital receives payments from Federated Investors for clients who have invested in Federated Funds.

Sales staff of Miles Capital is compensated by salary plus incentive compensation based on the assets brought in and retained for management. This does not change the total fee paid by the

client. Iowa Public Agency Investment Trust has a 12(b)1 plans which allows for payment of fees to the sponsoring organizations. This arrangement is fully disclosed in the prospectus for the fund.

Miles Capital may pay a portion of its fees from Miles Funds to a third party for services provided. This arrangement does not impact the fees paid by shareholders.

## **Item 11 – Code of Ethics**

Miles Capital has adopted a Code of Ethics describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition against spreading rumors, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All employees at Miles Capital must acknowledge the terms of the Code of Ethics annually, and whenever it is materially amended.

Miles Capital anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which Miles Capital has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which Miles Capital clients, directly or indirectly, have a position of interest. Miles Capital's employees and persons associated with Miles Capital are required to follow Miles Capital's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Miles Capital may trade for their own accounts in securities which are purchased for Miles Capital's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Miles Capital will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. 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 Miles Capital's 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 of Ethics 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 continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between Miles Capital and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with Miles Capital's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. Miles Capital will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order.

Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

Miles Capital's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Vera Lichtenberger, Chief Compliance Officer, at 515-453-8400 or info@miles-capital.com.

It is Miles Capital's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. Miles Capital generally does not allow cross trades between client accounts, and specifically will not allow cross trades between client accounts without both clients' specific written authorization. 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. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. 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. Miles Capital is an investment adviser only and is not dually registered.

## **Item 12 – Brokerage Practices**

Unless a Client instructs Miles Capital to use a specific broker-dealer to execute trades on the Client's behalf, Miles Capital will select a broker-dealer for this purpose. Where Miles Capital chooses a broker-dealer, commissions negotiated by Miles Capital with the broker-dealer will be fair and reasonable. Miles Capital selects broker-dealers based upon, among other things, their financial strength, reputation, responsiveness and willingness to negotiate commission rates. Consideration is also given to those broker-dealers who provide research services of interest to Miles Capital. Although no client pays additionally for this research, commissions charged by broker-dealers who supply such research may be greater than those who do not. Since Miles Capital uses research received from broker-dealers for all its accounts, the burden of paying for this research may fall on clients who do not direct their brokerage. Some clients have custodial arrangements with broker-dealers. These clients may direct Miles Capital to use the custodial broker-dealer or an affiliate or subsidiary of the custodial broker-dealer for trade execution. In all situations where the client directs Miles Capital to use a broker-dealer for custody, trades will be executed through this broker-dealer. Miles Capital will not negotiate commission rates but instead will execute trades at the previous rate negotiated by the client with the broker-dealer. This practice may limit Miles Capital's ability to otherwise negotiate commissions to obtain best execution. This may mean some clients pay more or less than other clients for trade execution. As

discussed below, this is also true in instances when Miles Capital places block trades with a broker-dealer on behalf of multiple clients.

Where clients designate broker-dealers, it may not be possible for Miles Capital to obtain for such clients the lower rates which might be attainable if Miles Capital had full discretion in the selection of the executing firm, or to permit the client to participate in volume discounts for batched transactions of fully discretionary clients. Clients directing brokerage may also incur other transaction costs or greater spreads, or receive less favorable net prices on transactions for their account than might otherwise be the case.

Miles Capital may aggregate securities orders for clients and submits these as a block or "batch" order. Block trades are placed on an alphabetical rotational basis, by broker-dealer, until complete. The starting point in the rotation moves up with each block trade. Client accounts, which are not directed brokerage accounts, are grouped together as one entity to trade in the rotation. Client accounts that participate in such block orders receive an order fill at the average share price for the broker-dealer entity of the block order execution. This average share price may or may not be more favorable than client's order submitted separately. Some clients participating in block transactions pay their individually negotiated commission rates instead of a pro rata commission. In accounts where the client designates a broker-dealer to execute trades: 1) client's commission rate may be higher than rates that Miles Capital obtains for accounts for which it chooses the executing broker-dealer; 2) client may not participate in cost savings from block orders submitted by Miles Capital to broker-dealer Miles Capital chooses to execute trades; 3) client may also incur other transaction costs, or greater price spreads or receive less favorable net prices on transaction than might otherwise be the case.

In purchasing and selling securities for its clients, Miles Capital seeks to obtain quality execution at favorable security prices through responsible broker-dealers, and in the case of agency transactions, competitive commission rates. However higher brokerage commissions may be paid in return for brokerage and research services. In selecting from among market-makers, Miles Capital generally seeks to select those it believes to be actively and effectively trading the security being purchased or sold.

To the extent that portfolio transactions are effected with broker dealers who furnish research services to Miles Capital, Miles Capital receives a benefit, not capable of valuation in dollar amounts, and without providing any direct monetary benefit to Miles Capital's customers. Miles Capital maintains a list of approved broker dealers, which is used in the placement of Miles Capital's securities transactions business, in order to induce certain broker dealers to provide Miles Capital with research services.

Miles Capital may receive products and services which are used for both research and other purposes such as administration and marketing. Miles Capital determines the relative proportions of such products or services which may be attributed to research. The portion attributable to

research may be paid through client brokerage commissions and the non-research portion will be paid in cash by Miles Capital. The research provided by broker-dealers may be used in servicing any or all of Miles Capital's clients and may be used in connection with accounts other than those which pay commissions to the broker-dealer providing the research.

The research services from broker-dealers include information on the economy, industries, groups of securities, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis and analysis of corporate responsibility issues. These services provide both a domestic and international perspective. Research services are received primarily in the form of written reports, computer generated services, telephone contacts and personal meetings with security analysts. In addition, such research services may be provided in the form of meetings with corporate or industry spokespersons, economists, academicians, and government representatives. In some cases, research services are generated by third parties but are provided to Miles Capital by or through broker-dealers.

Some of the selections and the amount of brokerage given to a particular broker dealer may be pursuant to an agreement Miles Capital entered into to compensate the selected broker dealer for research and services provided. Miles Capital also maintains internal allocation procedures to identify those broker dealers who have provided it with research and services and the amount provided, and endeavors to direct sufficient commissions to ensure continued receipt of such research and services.

Research services received from broker-dealers are supplemental to Miles Capital's own research effort and, when utilized, are subject to internal analysis before being incorporated by Miles Capital. Miles Capital pays cash for certain research services received from external sources. Miles Capital allocates brokerage for research services that are available for cash. While the receipt of research services from brokerage firms has not reduced Miles Capital's normal research activities, the expense of Miles Capital could be materially increased if it attempted to generate such additional information through its own staff. To the extent that research services are provided by broker-dealers, Miles Capital is relieved of expense which it might otherwise bear.

Miles Capital will authorize payment of an amount of commission for effecting a securities transaction in excess of the amount of commission another broker dealer would have charged only if Miles Capital determines in good faith that such amount of commission is reasonable in relation to the value of the brokerage and research services provided by such broker dealer, viewed in terms of either that particular transaction or Miles Capital's overall responsibilities with respect to the accounts as to which it exercises investment discretion.

In selecting broker-dealers to execute clients' portfolio transactions, consideration is given to such factors as the price of the security, the rate of the commission, the size and difficulty of the order, the reliability, integrity, financial condition, general execution and operational capabilities of competing brokers, and brokerage and research services provided by them. It is not the policy of

Miles Capital to seek the lowest available commission rate when it believes that a broker-dealer charging a higher commission rate would offer greater reliability or provide better price execution.

Soft dollar benefits are not limited to those clients who may have generated a particular benefit although certain soft dollar allocations are connected to particular clients or groups of clients. Soft dollar benefits are not proportionally allocated to any accounts that may generate different amounts of the soft dollar benefits.

Clients may designate certain securities or types of securities which, for various reasons, they prefer to hold or not to hold or cannot hold in their accounts. Clients may also restrict purchase or sale of certain issues or amounts of gain or loss to be realized in any given tax year. These client restrictions may or may not adversely affect investment returns.

When a trading error occurs, Miles Capital will reimburse any losses to the client caused by the Miles Capital error. If the error results in a gain (after costs of correcting the error) the client will benefit. There may be exceptions depending upon the circumstances surrounding the error.

Most major broker-dealers participate in the underwriting of initial public offerings (IPOs). IPOs are usually quite volatile and are not appropriate for all investment styles. Shares are usually allocated within an underwriting syndicate amongst the broker-dealer's own clients. Clients who specify a broker-dealer as their custodian may not be eligible to participate in a particular IPO unless their broker-dealer is part of the underwriting syndicate. Miles Capital will allocate IPO shares first, on the basis of eligibility, i.e., appropriate fit with the investment strategy and risk, custody arrangements, and broker-dealer's participation in the underwriting. The allocation will be made on the appropriateness for the particular account. Finally, allocation will be made on a rotational basis so that eligible accounts have an opportunity to participate at sometime. Not all eligible accounts will participate in every allocation of IPO shares.

### **Item 13 – Review of Accounts**

All accounts are continuously monitored and reviewed by the investment team (whose members are outlined in the Brochure Supplement) to ensure consistency of performance and adherence to the client's investment objectives and guidelines. Interim reviews are triggered by a number of factors, including changes in these objectives and guidelines.

Separate account clients typically receive a portfolio statement at least quarterly, including a list of portfolio holdings, performance data, and comments by the Portfolio Manager regarding the strategy employed. Supplementary reports are available upon request. In addition to these

reports, some clients receive reports directly from their advisor, broker, or custodian, including confirmation of trades executed for their account. Most clients also receive complimentary research pieces developed by Miles Capital. Further, relationship managers meet with clients at least annually to discuss performance and review investment objectives and guidelines.

For mutual funds, regulatory reports are prepared and filed with the SEC. Information is also prepared and presented to the fund board. In addition, the board and each shareholder are provided with an Annual Audited Financial Report and a Semi-Annual Unaudited Financial Report.

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

Miles Capital has solicitors' agreements in place with certain broker-dealers and their representatives that spell out the payment of finder's fees. There are agreements, in writing, submitted to the clients displaying "a finder's fee" paid to their registered representative of a broker-dealer when a referral is made by the registered representative to Miles Capital and paid by Miles Capital.

Miles Capital utilizes independent representatives to solicit new accounts. These representatives are paid a commission or service fee based upon a percentage of the investment advisory fee collected by Miles Capital.

Referral agreements will comply with Rule 206 (4)-3. Each client is given a copy of the referral agreement prior to or at the time of entering into any advisory contract.

Miles Capital receives payments from Federated Investors for clients who have invested in Federated Funds.

Sales staff of Miles Capital is compensated by salary plus incentive compensation based on the assets brought in and retained for management. This does not change the total fee paid by the client.

Iowa Public Agency Investment Trust has a 12(b)1 plan which allows for payment of fees to the sponsoring organizations. This arrangement is fully disclosed in the prospectus for the fund.

Miles Capital may pay a portion of its fees from Miles Funds to a third party for services provided. This arrangement does not impact the fees paid by shareholders.

#### **Item 15 – Custody**

Miles Capital is not a custodian. Miles Capital recommends that the client use a bank or trust company or broker dealer as custodian of the client's assets. At the client's request, Miles Capital may suggest a specific custodian based on execution, clearance and settlement capabilities and

costs, and Miles Capital's knowledge of the custodian's financial stability and capabilities. Miles Capital is not compensated for this assistance.

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Miles Capital urges 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**

Miles Capital usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, Miles Capital observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, Miles Capital's 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.

Investment guidelines and restrictions must be provided to Miles Capital in writing.

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

Clients may obtain a copy of Miles Capital's complete proxy voting policies and procedures upon request. Clients may also obtain information from Miles Capital about how Miles Capital voted any proxies on behalf of their accounts. Clients are offered this report annually.

Some Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in their portfolios. Miles Capital may provide advice to clients regarding the clients' voting of proxies.

Miles Capital currently utilizes the Proxy-Edge system to facilitate voting of proxies for managed accounts as well as reporting for proxy activity and decisions.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Miles Capital’s financial condition. Miles Capital has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.