Mengis Capital Management, Inc.

Form ADV Part 2A – Disclosure Brochure

February 13, 2020

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This brochure provides information about the qualifications and business practices of Mengis Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at telephone numbers above or at jeff@mengiscapital.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

Additional information about Mengis Capital Management, Inc. also is available at the SEC's website www.adviserinfo.sec.gov.

We are a registered investment adviser with the Securities and Exchange Commission. Our registration as an Investment Adviser does not imply any level of skill or training.

Item 2 – Material Changes

The following is a summary of material changes that were made to the Mengis Capital Management, Inc. Investment Adviser Firm Brochure (Form ADV Part 2A) in the most recent revision dated March 14, 2019. Full details are outlined in the Firm Brochure, which is available upon request. Please contact our office for a free copy by phone at 877-916-0780 (toll free) or by email to cindy@mengiscapital.com:

- We have updated the amounts of assets under the Firm's management, discretionary and nondiscretionary, as of December 31, 2019 to reflect a total of $490,964,169.

- The Firm reviewed its standard fee schedule and made certain revisions to the schedule to reflect more accurate disclosure. No changes were made to the amount of fees charged.

Item 3 – Table of Contents

Item 4 – Advisory Business

Our Firm

Our firm, Mengis Capital Management, Inc. ("we," "us" or "our firm "), is an independent investment advisory firm registered with the SEC. Located in Portland, Oregon, we have been providing investment advisory services since Jeff Mengis founded our firm in 2001. Mr. Mengis and Mr. Michael Patterson are the firm's shareholders.

Our Services

We offer professional, full-time management of clients' assets. We provide traditional, discretionary portfolio management for individuals, retirement funds, corporations, trusts and endowments. Our firm may also serve as a subadviser to other advisory firms and assist them in managing their clients' assets.

We specialize in management of individual equity and income portfolios. In our management process we strive to achieve tax-efficiency for our clients through long-term capital gains and offsetting losses. We often use mutual funds and ETFs to complement our client portfolios.

Individual Equities. We seek out and invest in companies with strong quantitative and qualitative characteristics which, in our judgment, offer value and long-term performance potential to their shareholders. We also take into account relevant market conditions. We build equity portfolios one company at a time. Our client's equity portfolios are highly customized, and the number of positions in each portfolio will vary for each client. Sector weights in an equity portfolio are determined by the underlying relative value of the companies within each sector (for example, if energy companies compared to companies in other sectors are trading at a perceived greater discount to intrinsic value, we may increase the weight of that sector in the portfolio).

Income Portfolios. After assessing each client's income needs and risk tolerance, we assemble a customized income portfolio with core positions in either government, municipal, or corporate income securities. Where we think it may be appropriate, we use positions in specific asset classes that complement and diversify our holdings, such as preferred stock, high-yield bonds, global income, Treasury Inflation-Protected Securities, real estate investment trusts ("REITs") and alternative investments.

Mutual Funds. Where suitable, we invest a portion of your assets in open- or closed-end mutual funds and/or ETFs to give you access to additional asset classes. We believe that mutual funds play an important role in portfolio composition. Mutual funds can provide diversification and focused research analysis in areas such as small capitalization, mid-capitalization, emerging and foreign markets, high-yield, real estate and socially responsible strategies. In evaluating mutual funds for our clients, we focus on performance against peers and benchmarks, performance in different market cycles, manager turnover, risk characteristics, tax efficiencies (when applicable) and expenses. We have access to management tools that aid in identifying portfolio diversification and overlap. These reports break down individual holdings, allowing us to analyze each fund's composition.

Tailoring To Clients' Needs

We tailor portfolios to meet individual needs of our clients. During the client intake process, we inquire into their financial circumstances and determine their investment objectives, risk tolerance, investment time horizons and any restrictions they want to place on the types of securities to be purchased for any of their accounts. In addition, after our initial meeting with each new client, we develop an Investment Policy Statement for that client. We review each client's Investment Policy Statement at least annually and update it, if necessary, to reflect any changes in their financial circumstances. Our clients bear the responsibility of keeping us informed of any subsequent changes so that we can continuously manage their assets in the manner suitable to their needs and objectives.

Although we generally have a broad discretionary authority over client assets, clients may impose restrictions on investing in certain securities or types of securities in the Investment Policy Statement or through any formal or informal communication to us. In those cases, we exercise our discretionary authority consistently with the clients' instructions and obtain the clients' approval before each transaction that may be inconsistent with those instructions.

Wrap Fee Programs

We currently do not participate in wrap fee programs.

Assets Under Management

As of December 31, 2019, the amount of client assets managed by us on a discretionary basis was $476,281,914, and the amount of client assets we managed on a non-discretionary basis was $14,682,255.

Item 5 – Fees and Compensation

Our Fees

We charge our clients advisory fees calculated as a percentage of the market value of the assets in their household accounts, without adjustment for any margin debt. All fees are specified in your advisory agreement with us.

The standard fee schedule for discretionary managed accounts is as follows:

- 1.00% on the first $2,000,000
- 0.85% on the next $3,000,000
- 0.70% on the next $5,000,000
- 0.50% on the next $20,000,000
- 0.30% on the amount over $30,000,000

If a client requests services beyond our standard investment advisory services (for example, financial planning services or client driven account management), we may charge the client for such services at an hourly rate, based on the services requested and the person providing the additional services.

Fees may vary from the standard schedule based on the type and size of the account, the range of additional services provided to the client, and the total amount of assets managed for a group of related clients.

For nondiscretionary client accounts, fees are negotiable depending on the level of service provided to the client, heightened compliance oversight and management of the account, and the types of investments requested by the client. Fees for such accounts may exceed the maximum fee stated in the above schedule.

Billing and Payment

Fees are paid quarterly in advance. Generally, fees for a particular quarter are deducted from the clients' accounts on the first business day of each quarter based on the value of assets in the account as of the close of business on the last business day of the preceding quarter. We send clients their account reports showing the balance as of the last day of each quarter net of our advisory fees for that quarter.

Upon client request, we will deduct our entire fee from one or more related accounts rather than proportionally from all your related accounts. If you do not have enough cash in your account to pay our fee, we may liquidate some of your account assets to pay the advisory fee.

Expenses

In addition to our advisory fees, clients are responsible for certain other fees and expenses as follows:

Mutual Funds and ETFs. We may exercise our discretion to invest a portion of client assets in open-end or closed-end mutual funds or in exchange-traded funds ("ETFs"). These funds, in our judgment, may offer unique investment opportunities due to greater diversification, and/or focused research analysis in areas such as emerging growth, foreign markets and higher- yield investments. If we conclude that mutual funds or ETFs are appropriate additions to a client's portfolio, such investments may increase the cost to the client. In addition to our fee, the client may incur a commission or transaction fee when the mutual fund or ETF is purchased and will incur an annual management fee by the manager of the mutual fund or ETF. We do not receive any part of such fees. These fees and expenses are described in each fund's prospectus, and generally include a management fee, other fund expenses, and a possible distribution fee. When considering an investment in a mutual fund or ETF, we will evaluate the relative annual costs as a part of the decision.

A client could invest in a mutual fund or an ETF directly, without our involvement. In that case, the client would not receive the benefit of our services, which include, among other things, identifying the mutual funds and ETFs, if any, that are most appropriate to that client's financial condition and objectives and continuous monitoring of market conditions. Accordingly, clients should review the fees charged by the mutual funds or ETFs, and our fees, to fully understand the total amount of fees to be paid and to evaluate the advisory services being provided.

Brokerage. We may enter into an agreement with a broker-dealer, which would provide research to us in exchange for us executing certain trades through that broker-dealer. If client assets are not custodied with that broker-dealer, clients may pay the broker-dealer a brokerage commission and may also pay the custodian a separate fee. See Item 12 below for a detailed discussion of brokerage commissions. We place equity and fixed income transactions with Charles Schwab & Co., Inc., an independent and unaffiliated broker-dealer ("Schwab"), unless otherwise directed by client. We acknowledge our duty to seek best execution of trades for our clients and, consistent with that duty, use other brokers from time to time. Research received pursuant to any such arrangement is expected to benefit all of our clients.

Custodians. We require each client to have a third-party custodial relationship. The custodian will charge its own fee separate from our advisory fee in the form of (1) commissions, or (2) for clearance and settlement of trades that are executed through broker-dealers other than through the custodian.

Prepayment and Refunds

As our fees are deducted quarterly in advance, we make pro rata fee adjustments for additional assets placed in an account in excess of $20,000 during a quarter. No fee adjustments are made for partial withdrawals or for account appreciation or depreciation within a billing period.

If your agreement with us begins during a quarter, we will prorate the fee you pay for the initial partial quarter, based on the number of days from the beginning of your agreement until the end of the initial quarter. Our client agreement may be terminated with a written notice by either you or us. If your agreement terminates during a quarter, we will refund a pro rata portion of the fee you paid for that quarter, based on the number of days between the end of the 30-day notice period and the end of the quarter.

Sales Charges or Fees

We do not accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

We do not charge or accept any performance-based fees.

Item 7 – Types of Clients

We provide investment advice to individuals, high net worth individuals, pension plans, charitable organizations and corporations/other businesses. Before entering into an advisory relationship with a client, we generally require that accounts under our management have a minimum aggregate value of $500,000; provided, however, we may accept lower minimums in certain circumstances. The values in the accounts beneficially owned by related person(s) and/or entities (such as, accounts held by husband and wife individually, by their IRAs and trust(s) for the benefit of their children) are aggregated for purposes of the minimum balance requirement, and fee apportionment. In addition, we may waive this requirement under certain circumstances.

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

Methods Of Analysis And Investment Strategies

In formulating our investment advice and managing client assets we use fundamental and technical methods of analysis. Fundamental analysis involves the review of companies' "fundamentals" (balance sheet, cash flow and income statements, etc.), as well as other factors that can affect the value and price of these companies' stock. Taking into account macro and micro economic climate and applicable industry conditions, we seek out companies that meet one or more of the following criteria:

- have compelling business models;
- have solid business fundamentals with potential for long-term enhancements;
- operate in industries with future growth opportunities and present profitable operations;
- have strong management team committed to increasing shareholder value; or
- have attractive valuations.

We also use a "technical" method to evaluate securities. This means we analyze statistics generated by market activity, such as past prices and volume. This method of analysis does not seek to measure a security's intrinsic value, but seeks rather to use charts to identify patterns that can suggest future activity.

Our investment strategies include long-term purchase and short-term purchases. In trading individual equities, we generally purchase for long-term investment (at least one year). We prefer to hold a particular equity for as long as the original reasons for selecting that equity remains sound. However, we may sell all or a portion of your position in that equity in less than a year under the following circumstances:

- if there is a change in the original reasoning for selecting the equity, such as a deterioration or change in the firm's fundamentals;
- if we need to make room for a more compelling opportunity;

- if our target price has been met and the security is no longer attractive from a valuation perspective;
- for tax efficiency reasons; or
- to rebalance the client's total portfolio.

We rarely sell a security in less than 30 days, or buy or sell options or warrants.

Risks For Methods Of Analysis And Strategies

Investing in equity securities involves risk of loss that clients should be prepared to bear. The following risks affect the value of the investments managed by Mengis:

Equity Securities. In addition to the general market and investment risks, these securities face risks such as:

- Small and Mid-Cap Company Risks – Investments in small and mid-cap companies may be riskier than investments in larger, more established companies. The securities of these companies may trade less frequently and in smaller volumes than securities of larger companies. In addition, small and mid-cap companies may be more vulnerable to economic, market and industry changes. Because smaller companies may have limited product lines, markets or financial resources, or may depend on a few key employees, they may be more susceptible to particular economic events or competitive factors than larger-capitalized companies.
- Large-Cap Company Risk – There is a risk that returns from large-cap growth stocks will trail returns from the overall stock market. Large-cap stocks tend to go through cycles of doing better, or worse, than the stock market in general.
- Concentration Risk – We use a focused strategy compiling, typically, 25-40 stocks to create a reasonably diversified equity portfolio. This concentration is relatively high, and may have a greater investment risk when compared to the S&P 500 index. The performance of one company or one sector can have a stronger impact on the performance of the portfolio.

Fixed-Income Securities. These securities face risks, such as:

- Interest Rate Risk – Fixed-income securities increase or decrease in value based on changes in interest rates. If rates increase, the value of income securities generally declines. On the other hand, if rates fall, the value of the fixed-income securities generally increases.
- Credit Risk – There is a risk that issuers and counterparties will not make interest and/or principal payments on the securities they issue or that their payments will not be made when due. In addition, the credit quality of securities may be lowered if an issuer's financial condition changes. Lower credit quality may lead to greater volatility in the price of a security, and that may affect liquidity and our ability to sell the security.
- Call Risk – There is a risk that falling interest rates will cause an issuer of income securities to redeem (call) its higher-yielding income securities before their maturity date

forcing reinvestment at a lower rate.

Mutual Funds and ETFs. These funds face risks based on the investments they hold:

- Small and Mid-Cap Company Risks – Investments in small and mid-cap companies may be riskier than investments in larger, more established companies. The securities of these companies may trade less frequently and in small volumes than securities of larger companies. In addition, small and mid-cap companies may be more vulnerable to economic, market and industry changes. Because smaller companies may have limited product lines, markets or financial resources, or may depend on a few key employees, they may be more susceptible to particular economic events or competitive factors than larger capitalization companies.
- International & Emerging Market Fund Risk – Investments in international and emerging market companies may be riskier than investments in domestic companies. There is a risk that the country's currency could lose value relative to the dollar, decreasing the company's value. A potential for sovereign risk, that a country could be overthrown, depressing the value of a company. In addition, investments in international markets have the potential for less financial transparency, which can distort the fundamentals of a company.
- Sector Stock Fund Risks – A sector stock fund (which invests in a single industry, such as telecommunications) is at risk that its price will decline due to developments in its industry.

We seek to reduce these risks through diversification. However, diversification may not protect assets in a down market. Although we will exercise careful judgment and diligence in managing your assets, we cannot guarantee any level of performance or that you will not experience a loss in your assets.

As a reminder, we are not liable for: (i) any loss you suffer because of any investment decision we make or other action we take or do not take in accordance with our agreement with you; (ii) any loss you suffer because we follow your instructions; or (iii) any act or failure to act by any custodian or broker.

Item 9 – Disciplinary Information

We do not have any legal or other disciplinary item to report to you. We are obligated to disclose any disciplinary event that would be material to you when evaluating us to initiate a client/adviser relationship, or to continue a client/adviser relationship with us.

Item 10 – Other Financial Industry Activities and Affiliations

We are obligated to disclose if we, any of our "supervised persons" (meaning our employees and independent contractors), or any of our affiliates are involved in other financial industry activities, such as those of a broker-dealer, commodity pool operator or a futures commission merchant. We are also obligated to disclose if we receive compensation from other advisers for recommending or selecting those advisers for you.

We do not have any other financial industry activities or affiliations to report to you and we do not require compensation from other advisers for recommending or selecting them.

Item 11 – Code of Ethics

Summary

We have adopted a Code of Ethics (the "Code"), which requires us and all of our employees, officers, directors and independent contractors ("associated persons") to act in the best interests of our clients and in compliance with federal securities laws.

The Code is a part of our Business & Compliance Manual (the "Manual"). Our compliance officer administers and enforces the Manual and provides each associated person with a copy of the Manual, as well as any amendments. All associated persons must: (a) execute an acknowledgement of receipt of the Manual and any amendments to the Manual; and (b) report to the compliance officer any violations of the Code.

With respect to their personal securities trading, each associated person must (a) identify securities accounts in which he or she has a direct or beneficial interest; (b) make no personal trades for securities which we are in the process of buying for client accounts until the compliance officer confirms that the client transactions were completed or that the associated person's trade is included in a block transaction at a price no better than the clients' trades on that day; and (c) report all personal securities transactions by providing quarterly account statements to the compliance officer.

Additional requirements of the Code apply to associated persons with access to nonpublic information regarding a client or investment recommendations made to the client ("access persons"). Each access person must: (a) within 10 days after acquiring the status of an access person, and annually thereafter, submit reports providing certain information regarding all securities (other than obligations of the U.S. government, liquid investments, shares of money market funds or domestic open-end mutual funds unaffiliated with us) beneficially owned by the access person; (b) submit reports of all transactions in securities beneficially owned by the access person, which reporting requirement may be satisfied by providing to the compliance officer monthly account statements from the securities firm maintaining the access person's account; and (c) obtain the compliance officer's pre-approval to investing in an initial public offering or a private placement. The compliance officer will review each report submitted by the access persons, as well as each quarterly statement received for each associated person's account. Mr. Mengis reviews the compliance officer's reports and quarterly statements.

Our Code of Ethics states that, while it is not a standard practice for the Firm to enter into loan arrangements with the Firm's clients, it may do so under limited circumstances and subject to conditions specified in the policy (i.e., Board must find/confirm a need for funds for business reasons, the terms of the loan must be similar to the terms of an arms' length loan, full disclosure of a potential conflict of interest must be made to clients in Form ADV and no preferential treatment can be afforded to clients extending loans). The Firm currently has one loan from a related client, one of which clients is a related party of our President. The loan matures on March 1, 2022, and the terms of the loan are essentially market terms.

It is our policy that employees cannot enter into a direct loan with a Firm client(s), unless the lender is the employee's related party and the Firm's board has approved the loan based on the totality of circumstances indicating a low threat of a conflict of interest or preferential treatment for the client(s) extending the loans.

We will provide a copy of our code of ethics to any current or prospective client upon request.

Cross Transactions

The Firm will execute cross transactions for clients only in situations in which the transaction is permitted by law and is in the best interests of both the buying and selling client. We do not recommend to our clients, or buy or sell for client accounts, securities in which our firm or a related person has a material financial interest.

Transactions In Securities Recommended To Clients

Occasionally, our employees may want to invest in the same securities (or related securities, such as, warrants, options or futures) recommended to our clients. In this situation, a conflict of interest might arise if our employees' investments are executed on better terms or prior to client trades. We address this conflict of interest by restricting employees' personal trades as stated in the Code: employees cannot make personal trades in securities which we are in the process of buying for client accounts until the compliance officer confirms that the client transactions were completed or that the employee's trade is included in a daily block transaction at a price no better than the clients' trades.

Item 12 – Brokerage Practices

Broker Selection Criteria

Our management discretion includes the selection of the security, the amount to be purchased or sold, the broker or dealer to be used, and the commission rate to be paid. We select brokers on the basis of their overall assistance in terms of execution capabilities, commission rate, financial responsibility, responsiveness and research-related products and services provided to us. Commission rates paid to the broker selected by us may be higher than the lowest commission rate available. We select brokers on the basis of the quality and/or amount of services the brokers provide to us.

Research and Other Soft Dollar Benefits. Our firm does not participate in any soft dollar programs.

Brokerage for Client Referrals. We do not direct client transactions to a particular broker-dealer in return for client referrals.

Directed Brokerage. Clients may direct us to select specific brokerage firms or place assets with a specified broker or custodian. In some cases, this request may result in higher commissions and/or less favorable executions on some transactions than we might otherwise be able to attain. The client may forgo any benefit from savings on execution costs that we could obtain through negotiating volume discounts on block transactions. The client may direct us to use a particular broker from whom we receive or may receive referrals, and we may derive a benefit from the client's direction.

Client accounts maintained at a qualified custodian are not charged fees. The custodians receive compensation from clients in the form of commissions or other transaction-related compensation on securities trades executed through the custodian. Custodians may also receive a fee for clearance and settlement of trades that are executed through broker-dealers. Trading on a client account may vary as to time and price depending on the custodian.

Aggregation and Allocation of Trades. Typically, we cause similarly situated client accounts to engage in similar trades. Thus, if we believe that a particular security is suitable for one account, we will buy the same security for the other similarly situated accounts, except for those accounts, with respect to which we were directed to make other trades (or no trades) by the clients. For example, clients may direct us to trade certain securities in their accounts at a particular price or particular time. Clients directing such trades may receive a different price for the same security that is traded for other accounts pursuant to its general advisory discretion.

To obtain more favorable order execution, we will aggregate contemporaneous buy or sell orders for same securities, with applicable accounts participating in the aggregated order on a pro rata basis. Occasionally, an aggregated order may only be partially filled. Under such circumstances, the transaction generally will be allocated among the applicable clients on a pro rata basis. Exceptions to the pro rata allocation of partially filled orders may occur for several reasons, including without limitation avoidance of odd lots or de minimis numbers of shares and sensitivity toward the total transaction cost to be incurred by the client. There may be instances when partially filled orders may adversely affect the size of the position or the price paid or received by a client, as compared with the size of the position or price that the client would have received had no aggregation occurred.

The aggregation and allocation policies above apply to trades in equity and fixed income securities.

Wrap Fee Arrangements. Although Mengis Capital has no "wrap fee" arrangement as of the date of this brochure, we may be retained under a "wrap-fee" arrangement offered by a broker-dealer. The broker-dealer may recommend our firm as an investment advisor, pay our investment management fee on behalf of the client, monitor and evaluate our performance, execute the client's portfolio transactions without commission charge, and provide custodial services for the client's assets, or provide any combination of these services, all for a single fee paid by the client to the broker-dealer. However, in evaluating such an arrangement, a client should recognize that we do not negotiate commissions for the execution of such brokerage transactions. Transactions in accounts paying a wrap fee are effected "net" (without commission) and a portion of the wrap fee is generally considered as being paid in lieu of commissions. Because trades are generally required to be executed only by the broker-dealer receiving the wrap fee, we will not be free to seek the best price for transactions and generally will not be able to include such clients in aggregated trade transactions. We cannot assure that a particular brokerage firm will provide adequate price and execution on transactions. The client should also consider that, depending on the level of the wrap fee charged by the broker-dealer, the portfolio activity in the client's account, the value of custodial and other services provided under the arrangement, and other factors, the wrap fee may or may not exceed the aggregate cost of such services if they were to be provided separately and if we were free to negotiate commissions and seek the best price and execution of transactions for the client's account.

Item 13 – Review of Accounts

Account Reviews

Account reports are updated by our in-house network system and are available to us on-line next day. These reports include the following information about each security held in the client's account: cost, current market value, income and percent of total assets. Securities are sorted by industry on the reports. Our system also reconciles these records with each client's custodian records, and any discrepancies are resolved promptly. All assets are held by unaffiliated custodians. Each account is reviewed by Jeff Mengis, Cindy Aschbacher, Michael Sorem or Michael Patterson regularly, at least quarterly.

Messrs. Mengis, Patterson and Sorem and Ms. Aschbacher consistently evaluate general market conditions along with events, fundamentals and disclosures relevant to individual holdings in client portfolios. Information about Messrs. Mengis, Patterson and Sorem and Ms. Aschbacher is included in the attached brochure supplements.

Reports to Clients

Our clients receive monthly statements from their independent custodians. We provide clients detailed quarterly reports, including fees and performance analysis for all billed accounts. We urge clients to compare the performance reports received from us with the account statements they receive from their custodian.

Item 14 – Client Referrals and Other Compensation

Benefits from Custodians

General. We receive no compensation for suggesting a particular broker or bank as your custodian. However, certain custodians provide products and services that benefit us and our client accounts. Some of these other products and services assist us in managing and administering client accounts. These include software and other technology that:

- provide access to client account data (such as trade confirmations and account statements)
- facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts)
- provide research, pricing information and other market data
- facilitate payment of our fees from our clients' accounts
- assist with back-office support, recordkeeping and client reporting
- provide allocation x-ray detail on account level

Many of these services may be used to service all or a substantial number of our accounts, including accounts not maintained with that particular broker. These products and services benefit us by allowing us to more quickly and accurately service our clients.

Various brokers also make available to us other services intended to help us manage and further develop our business. These services may include:

- publications and conferences on practice management
- information technology
- business succession planning
- regulatory compliance
- marketing

We may, from time-to-time, participate in conferences organized by custodians and other institutions where we learn about their investment outlook. As a result, we may invest in funds offered by those institutions. All such investment decisions are subject to our fiduciary obligation.

In addition, brokers may make available, arrange and/or pay for the above types of services when provided to us by independent third parties. The brokers may discount or waive fees they would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to us. As a fiduciary, we seek to act in our clients' best interests. However, our recommendation that clients maintain their accounts with these brokers may be based in part on the benefit to us of these products and services, and not solely on the nature, cost or quality of custody or brokerage services these brokers provide. Although this may create a potential conflict of interest, we believe these products and services are in the best interests of our clients.

Institutional Services Programs. We participate in institutional services programs offered to independent investment advisers by various brokers (including Schwab). We typically recommend such brokers to clients who need brokerage and custodial services. We are not affiliated with any broker.

As part of their institutional programs, brokers normally provide us with access to their institutional trading and operations services. These institutional programs generally are available to independent investment advisers, at no charge to them so long as the adviser's clients collectively maintain a specified balance of account assets with the broker. The broker services include brokerage, custody and research services, as well as access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment.

These brokers generally do not charge separately for custody. They are compensated by account holders either (a) paying a quarterly fee based on a percentage of the account value, (b) paying commissions or other transaction-related fees for trades that are executed through the broker or that settle into client accounts held with the broker, or (c) other benefits derived from cash held in the account.

We generally recommend brokers providing institutional services programs to our clients for custody of client assets and for the execution of equity, mutual fund and ETF transactions.
We regularly review these programs to ensure that our broker recommendations are consistent with our fiduciary duty.

Item 15 – Custody

In addition to having the ability to deduct our advisory fees from clients' accounts, we also maintain certain standing letters of authorization (SLOA) authorizing fund transfers which as a result causes us to have custody of client accounts as that is defined within the Investment Advisers Act of 1940. With respect to all of your assets in an account, they are held with a bank, registered broker-dealer or other "qualified custodian." In addition to the quarterly statements you receive from Mengis, you also receive statements directly from your custodian at least quarterly. We urge you to carefully review the custodial statements and compare them to the Mengis reports. The information in our reports may vary from your custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities. Pursuant to SEC guidance, Mengis intends to comply with the custody rule by annually engaging an independent accountant to perform a surprise exam for these SLOA accounts.

Item 16 – Investment Discretion

Our authority in managing your account includes either the full discretionary power to purchase, sell and exchange securities and other instruments, exercise all rights conferred on the holder of such assets, and reinvest all proceeds, or the power to purchase, sell and exchange securities and other instruments, exercise all rights conferred on the holder of such assets, and reinvest all proceeds on your behalf with your instruction. Such authority is indicated as such in your advisory agreement.

Discretionary authority gives us the authority to exercise full discretion, except for filing claims in connection with class action settlements, as described below. In addition, we observe investment limitations and restrictions that you disclose to us through the Investment Policy Statement process or other formal or informal communications which are then recorded and maintained in updates to your Investment Policy Statement.

Item 17 – Voting Client Securities

As a provider of investment supervisory services, our firm is generally authorized to vote proxies on behalf of its clients in accordance with its Proxy Voting Policy summarized below.

We monitor corporate actions and collect proxies from the clients' custodians, determine the issues to be voted on, identify and resolve any conflicts of interest, make voting decisions, and timely submit proxies. We will resolve any conflict of interest between us and a client by obtaining the client's written consent, by obtaining a voting recommendation from an independent third party, or by voting in accordance with our pre-determined voting guidelines, under which we generally vote with a company's management on "routine" issues, such as uncontested elections of directors. With respect to "non-routine" issues, we generally vote in favor of proposals promoting director independence and employee participation (such as, establishment of stock incentive plans for employees) and against proposals inhibiting the same. Case-by-case consideration will be given to other non-routine matters, including proposed mergers and recapitalizations. We may disregard the voting guidelines in situations where a client's best interest would be served by voting otherwise.

We will maintain for five years the following records: a copy of its Proxy Voting Policy; records of votes cast by it on behalf of its clients; records of written requests from clients for their proxy voting information and our written responses; any document prepared by Mengis us, our affiliates or agents in connection with any voting decision; and proxy statements in hard copy or as obtainable via the EDGAR system. A client may obtain a full copy of our Proxy Voting Policy or the information on how we voted securities held by the client upon request. We are not responsible or liable for failing to vote any proxies where we have not received such proxies or related shareholder communications on a timely basis.

Advisor will not take any action or make any recommendation with regard to any shareholder class action, including, without limitation, matters relating to opting in or out of a class and approving class settlements, and you will be responsible for all such matters. Upon request and at the direction of Client, we will assist you in preparing materials and provide information on such matters, to the extent Advisory has any applicable information.

Item 18 – Financial Information

We must disclose any financial condition that could impair our ability to meet our contractual obligations to you. We have no financial matters to disclose to you.