

**SPARROW CAPITAL MANAGEMENT, INC.**  
*Investment Research and Portfolio Management*  
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**ADV PART II**

**This brochure provides clients with information about Sparrow Capital Management, Inc. and the Sparrow Managed Money Programs. This information should be considered before becoming a client of Sparrow Capital Management, Inc. This information has not been approved or verified by any government authority.**

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**CLIENT PRIVACY POLICY**

The following is a description of Sparrow Capital Management, Inc. (SPARROW) policies regarding disclosure of nonpublic personal information that you provide to SPARROW or information that we may receive from third parties with respect to your account.

**Categories of Information SPARROW Collects.** SPARROW collects the following nonpublic personal information about you:

- Information SPARROW receives from you on or in applications or other forms, correspondence or conversation (such as your name, address, phone number, assets, income and date of birth)
- Information about your transaction with SPARROW, its affiliates or others (such as your account number and balance, payment history, parties to transaction, cost basis information, and other financial information)

**Categories of Information SCM Discloses.** SPARROW does not disclose any nonpublic personal information about its current or former account holders to unaffiliated third parties, except as required or permitted by law. SPARROW is permitted by law to disclose all of the information it collects, as described above, to its service providers (such as an account's custodian) to process your transactions and otherwise provide services to you.

**Confidentiality and Security.** SPARROW restricts access to your nonpublic personal information to those persons who require such information to provide products or services to you. SPARROW maintains physical, electronic and procedural safeguards that comply with federal standards to guard your nonpublic personal information.

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**PROXY VOTING POLICY**

The Company shall vote proxies related to securities held by any client in a manner solely in the best interests of the client. The Company shall consider only those factors that relate to the client's investment, including how its vote will economically impact and affect the value of the client's investment. Proxy votes generally will be cast in favor of proposals that maintain or strengthen the shared interests of shareholders and management, increase shareholder value, maintain or increase shareholder influence over the issuer's board of directors and management, and maintain or increase the rights of shareholders; proxy votes generally will be cast against proposals having the opposite effect. In voting on each and every issue, the Company shall use its best judgment, considering the above-mentioned factors. The CCO will be the person responsible for decisions on proxy voting and shall vote in a prudent and diligent fashion and only after a careful evaluation of the issue presented on the ballot.

**1. PROXY VOTING PROCEDURES**

- a. Unless the power to vote proxies for a client is reserved to that client (or in the case of an employee benefit plan, the plan's trustee or other fiduciaries), the CCO will be responsible for voting the proxies related to that account.
- b. Prior to voting, the CCO will verify that he or she has the authority to vote, and if so, will determine whether his or her voting is subject to guidelines issued by the client (or in the case of an employee benefit plan, the plan's trustee or other fiduciaries).
- c. The CCO will promptly vote proxies received in a manner consistent with the Proxy Voting Policies and Procedures stated above and guidelines (if any) issued by client (or in the case of an employee benefit plan, the plan's trustee or other fiduciaries).
- d. The CCO will keep a record of how he or she voted on each issue. The proxy will then be filed and becomes a permanent part of the records of the Company.
- e. On an ongoing basis, the CCO will monitor corporate management of issuers whose securities are held by clients whose accounts he or she manages and where appropriate will communicate with the management of such issuers.
- f. Periodically, the CCO will:
  1. Verify that all annual proxies for the securities held in the clients managed by the Company have been received;
  2. Verify that each proxy received has been voted in a manner consistent with the Proxy Voting Policies and Procedures and the guidelines (if any) issued by the client (or in the case of an employee benefit plan, the plan's trustee or other fiduciaries);
  3. If requested by the client, will report to the client how each proxy sent to Company on behalf of the client was voted.
  4. Review the files to verify that records of the voting of the proxies have been properly maintained.

If interested in viewing Proxy Voting Policy & Procedures it is available upon written request

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**ADVISORY SERVICES AND FEES**

SPARROW Capital Management, Inc. (SPARROW) provides continuous investment advice to a Client (or makes investments for the Client) based on the Client's individual needs. These investment supervisory services are provided for a fee based on a percentage of assets under management.

SPARROW, under the direct supervision of Mr. Gerald R. Sparrow, deals in advisory services in the range of \$100,000 or more of assets for managed accounts; however, smaller accounts are accepted.

Upon entering into an advisory agreement, SPARROW reviews the investment portfolio of the Client, if any is submitted. Based upon the review and discussions with the Client, the Client's financial needs and investment objectives are written on the Investment Management Agreement, and investments that are consistent with these needs and objectives are made.

**Annual management fee schedule for the Large-Cap, World Total Return, Tax Advantage Rising Dividend and Balanced Portfolios:**

On the first	\$ 500,000	2.00%
On the next	500,000	1.80
On the next	1,000,000	1.60
Over	2,000,000	1.40

While it is the general policy of SPARROW to charge fees to Clients in accordance with the fee schedule in effect at the time of the charge, fees are subject to negotiation and modification. The range of the fees could fall between 0.5% and 2.0% depending on the size of the account.

Brokerage commissions and custodial fees are charged to the account as transactions occur. One-fourth of the annual fee is paid quarterly, in advance, at the beginning of the calendar quarter, i.e., Jan. 1, April 1, July 1, and Oct. 1. A proportionate amount of the fee will be charged, in advance, for accounts opened between quarters. The fee will be based on the account asset value on the last business day of the calendar quarter just ended and will become due the following day. The fee will be deducted from the Client account. There is a \$2,000 minimum annual fee on accounts in the Large-Cap, World Total Return and Balanced portfolios. There is no penalty for terminating the Client's account. The client will refund all prepaid unearned fees on a pro-rata basis upon termination of the agreement.

The fee is determined by agreement between the introducing broker-dealer or financial consultant and SPARROW or by agreement between the client and SPARROW. Total annual fees charged by the broker-dealers or financial consultants with whom the Registrant is familiar are generally in the range of 0.5% to 2.0% annually. Introducing sponsors typically collect the total wrap fee and remit only a portion to SPARROW. However, under some contractual agreements, the client may pay fees directly to SPARROW.

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The following is a partial list of who Sparrow Capital Management, Inc. is currently doing business with:

1. Century Securities
2. Charles Schwab & Co.
3. Fidelity
4. First Heartland Advisors
5. Janney Montgomery Scott, LLC.
6. Morgan Keegan & Co.
7. Pershing
8. Southwest Securities
9. Sterne Agee & Leach, inc.
10. Stifel Nicolas
11. TD Ameritrade, Inc.
12. Wells Fargo

**TYPES OF CLIENTS**

SPARROW generally provides investment advice to individuals, banks and thrift institutions, investment companies, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and limited partnerships.

**TYPES OF INVESTMENTS**

**Large-Cap Investment Strategy**

SPARROW believes that a portfolio composed of large-cap growth stocks that are fully diversified across major economic sectors could provide investment returns that exceed market averages. SPARROW primarily invests in stocks that have demonstrated above-average earnings-per-share growth historically and are projected to generate above-average growth in the future. Large-Cap portfolios tend to resemble the capitalization mix found in general stock market indexes, such as the S&P 500, but SPARROW maintains the flexibility to invest in opportunities at any capitalization size. For the purpose of our Large-Cap portfolio, at the time of purchase, Sparrow looks for stocks with a market capitalization in excess of \$5 billion.

**World Total Return Investment Strategy**

SPARROW believes a portfolio composed of stocks, bonds, or securities bought and sold at the right price could provide investment returns that exceed market averages. To identify potential opportunities, SPARROW searches both domestic and foreign markets. SPARROW considers all market capitalizations as well as bonds, sector funds, index - ishares and other liquid securities. Portfolios are constructed of an average of 20 positions.

**Tax Advantaged Rising Dividend**

The Sparrow Tax Advantaged Dividend Portfolio is designed for investors seeking high after-tax current income, along with the potential for rising income and some capital appreciation over time. Stocks in the portfolio are selected primarily on their dividend producing ability both in the current period, as well as the potential for future dividend increases. All stocks are equally weighted at the time of initial purchase, and would be diversified across different sectors and industries, though a higher percentage of the stocks would come from the utility and financial sectors given the higher dividend yields associated with these sectors.

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**Balanced Investment Strategy**

The Sparrow Balanced Growth Portfolio is designed for investors who want a balance of both stocks and bonds in one portfolio. Portfolios are constructed of an average of 20 stock positions using one of our other investment strategies and an appropriate mix of fixed income securities. SPARROW invests in municipal, government or corporate bonds depending on the tax status and investment objectives of the investor. The highest quality available at the time of purchase is always paramount. If no appropriate stocks or bonds are available, cash equivalents are held.

Each portfolio will be monitored by SPARROW and will be rebalanced periodically if asset allocations have shifted substantially from target. Because rebalancing generally incurs additional costs due to transaction fees and potential taxable implications, we will only rebalance when significant asset shifts have occurred. In addition, our targeted asset allocations will sometimes change over time depending upon market conditions and the relative attractiveness of each asset category.

**A fundamental investment approach is employed using the following sources of information:**

- Financial newspapers, magazines and the internet
- Inspection of corporate activities
- Research and materials prepared by others
- Corporate rating services
- Annual reports, prospectuses and filings with the SEC
- Company press releases

**The investment strategies used to implement any investment advice given to Clients include:**

- Long-term purchases (securities held at least one year)
- Short-term purchases (securities sold within one year)
- Trading (securities sold within 30 days)
- Option writing, including covered options, uncovered options and spreading strategies

**SPARROW offers advice on the following investments:**

- |                            |                       |
|----------------------------|-----------------------|
| Exchange-listed equities   | Foreign Issuers       |
| OTC-traded equities        | Warrants              |
| Corporate debt securities  | Municipal securities  |
| Certificates of Deposit    | Mutual fund shares    |
| U.S. government securities | Options on securities |
| Exchange Traded Funds      |                       |

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**EDUCATION AND BUSINESS STANDARDS**

SPARROW requires that associated persons who have decision-making powers with respect to advisory accounts have earned a four-year undergraduate degree or the equivalent and have experience in the analysis of investments and financial planning.

Mr. Gerald R. Sparrow (1/12/59) is President and Chief Investment Officer at Sparrow Capital Management, Inc., a registered investment advisor, and portfolio manager for the Sparrow Limited Partnership, a hedge fund, designed to maximize after-tax returns. He is also portfolio manager for the Sparrow Growth Fund (SGFFX), a mutual fund that invests in growth stocks. He has been with Strong/Corneliuson Capital Management, Inc., where he developed and implemented investment strategies for individuals, institutional investors, and state and university systems. Mr. Sparrow graduated summa cum laude from the University of Missouri and holds a Masters of Business and Finance from Washington University in St. Louis, Missouri.

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**PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

The Client is sent a confirmation of each transaction from the broker. Clients are also provided with a monthly portfolio valuation statement from the custodian or SPARROW containing the cash balance, type, name and amount of each security and current market value of each security. Semiannually, the Client is sent a performance report by SPARROW, the broker or custodian.

SPARROW does not act as principal, buying or selling securities for itself to or from any clients. SPARROW does not act as broker or agent, effecting trades for clients for compensation.

**CONDITIONS FOR MANAGING ACCOUNTS**

Pursuant to the terms of the Investment Management Agreement, SPARROW is not required to obtain specific Client consent regarding specific securities to be bought or sold. However, the Client does select an investment objective, and SPARROW buys securities for the Client's account in accordance with the investment objective of the Client. Per the Investment Management Agreement, SPARROW, as Investment Manager, assumes all investment duties with respect to assets held in the Investment Management Account and has all investment powers including sole investment authority. The Investment Manager may take any action deemed appropriate, with or without other consent or authority from the Client, and may exercise discretion and deal in and with such assets exactly as fully and freely as the Client might do as owner thereof, except that the Investment Manager is not authorized to withdraw any money, securities or other property, whether in the name of Client or otherwise. In addition, from time to time, a Client may request that a security be held to qualify for a long-term capital gain rather than a short-term capital gain. Furthermore, some Clients instruct SPARROW to refrain from investing in certain companies or industries for their portfolio.

**REVIEW OF ACCOUNTS**

All accounts are also reviewed on a monthly basis by the portfolio manager to be certain that accounts are being invested according to investment objectives and any restrictions placed on the accounts.

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**INVESTMENT OR BROKERAGE DISCRETION**

Clients may instruct SPARROW, in writing, to utilize a particular Broker/Dealer and a Registered Representative associated with that Broker/Dealer for all of the Client's transactions. Clients may not receive best execution on client-directed trades when the client, rather than SPARROW, establishes the arrangement with the broker/dealer and then requests that SPARROW place the trades through the designated broker/dealer. The client direction and/or broker custody of the client's assets can limit or eliminate SPARROW's ability to negotiate commissions or otherwise obtain best price and execution. That due to its obtaining clients from broker referrals, Sparrow has a conflict of interest between acting in its clients' best interest to obtain best price and execution, and its interest in executing client transactions through referring broker-dealers regardless of the circumstances in order to benefit from continued referrals.

Where SPARROW has the authority to select the Broker/Dealer, SPARROW considers a number of factors to determine the reasonableness of commissions charged, including: the research received, execution capability, availability of securities, purchasers and sellers of securities, financial responsibility, responsiveness, custodianship, clearance, settlement, dividend posting, interest posting, size of each individual transaction, service related to each individual account (including brokerage personnel attention and time to Client accounts), service provided by the Registered Representative (of the Broker/Dealer) to the Client (including meetings to review Client objectives and financial needs, monthly Client portfolio reviews, Client transactions, Client investment performance and Client questions regarding the investments in the portfolio). Clients may pay commissions higher or lower than those charged by other Broker/Dealers.

SPARROW may directly or indirectly compensate a person for Client referrals. SPARROW Clients who refer new clients to SPARROW are provided a copy of the Referral Agreement. The Referral Agreement is also available upon request. SPARROW's Referral Agreement is in compliance with the federal regulations as set out in 17 CFR Sections 275.206(4)-3, cash payments for Client solicitations. Referral fees are paid as a percentage of the advisory fee; this percentage is negotiable. As the advisor of the Sparrow Growth Fund, SPARROW receives a distribution fee pursuant to a plan established according to Rule 12b-1 of the Investment Company Act.

**TRADE ALLOCATIONS**

Trade allocation decisions are made by the advisor for Clients on a fair and equitable basis (rotational). SPARROW aggregates multiple contemporaneous client orders into blocks by executing brokers. When two or more Clients are simultaneously engaged in the purchase or sale of the same security, to the extent possible, the transactions will be bunched (blocked). Such accounts will receive a security at an average price and, depending on the broker used, clients will either pay an average commission rate or the commission rate will vary by client. In some cases, the broker-dealer designated by the client may not or will not execute bunched orders or blocked trades.

**SPARROW EMPLOYEE SECURITY TRANSACTION GUIDELINES & OTHER COMPLIANCE ISSUES**

All SPARROW employees must sign and adhere to a Code of Ethics, which is available upon request. This Code of Ethics is designed to put the interests of all our clients first and expects all our employees to act in an ethical manner at all times. The Code of Ethics includes, among other things, provisions to strictly regulate personal trading by employees, to guard against conflicts of interest, and to protect the confidentiality of information.