



## Informational Brochure

SHEARWATER CAPITAL, LLC  
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### Advisory Business:

Shearwater Capital is a registered investment advisory firm with the U.S. Securities and Exchange Commission. The firm provides investment management advice and investment supervisory services for individuals, high net worth individuals, qualified retirement plans, and trusts. Shearwater Capital was founded in 1999. The company principals are Jeffrey Brown, MD MBA CFA and Eric Malden, MD MBA. The Chief Compliance Officer is Jared Meese, MBA.

The company takes a scientific approach to investing with an emphasis on broad international diversification, tax efficiency and low fees. The asset allocation strategy for each account is tailored to meet each client's unique financial needs.

An Investment Policy Statement (IPS) is prepared for each client, whether an individual, family or organization. The IPS includes relevant background information about the client, including the client's investment objectives, risk tolerance, investment time horizon, and unique financial circumstances. The IPS also describes an asset allocation model designed to meet these investment goals, while taking into consideration the client's personal characteristics and financial circumstances. The IPS is reviewed at least annually to determine if the client's situation has changed and whether the asset allocation strategy should be changed. The IPS can also be reviewed, and modified if necessary, any time at the client's request.

When appropriate, Shearwater Capital works with new clients to develop a plan to transition from a client's existing portfolio to the desired portfolio.

Shearwater Capital does not maintain custody of any client funds. We utilize outside third-party custodians for all client assets. The majority of our assets under management are held at TD Ameritrade Institutional where we have negotiated an agreement that we believe is beneficial for our clients. We also maintain some assets under management at other custodians, such as Vanguard and Charles Schwab.

An Investment Management Agreement, signed by the client and a firm representative, provides Shearwater Capital with the authority to make trades on the client's behalf. About 95% of the clients prefer to have Shearwater Capital manage their accounts according to the asset allocation strategy specified in the IPS, without direct input from the client prior to each trade. The remaining 5% of clients prefer to take an active role in the investment process, ranging from discussing the investment options before trades are placed to specifying which securities to buy or sell.

### Fees and Expenses:

Shearwater Capital is a fee-only investment advisory firm, meaning that investment management fees comprise our only source of compensation. We are committed to keeping

our fees below the industry norm. Fees are charged quarterly according to the following annualized fee schedule:

<u>Account Size</u>	<u>Annual Fee</u>
<\$100,000	0.85%
\$100,000-\$250,000	0.75%
\$250,000-\$500,000	0.65%
\$500,000-\$1,000,000	0.55%
\$1,000,000-\$2,500,000	0.45%
\$2,500,000-\$5,000,000	0.35%
\$5,000,000-\$10,000,000	0.25%
> \$10,000,000	0.15%

The fee percentage is determined based on the total amount of assets under management for one family or household, regardless of the number of accounts. This is less expensive for the client than charging fees based on each account in isolation. An additional significant benefit is that we do not use a tiered or blended fee structure, which would apply a 0.85% fee to the first \$100,000, 0.75% to the next \$150,000, etc. Clients are charged the annual fee based on total assets which results in a lower overall fee percentage.

At Shearwater Capital, we do not use a commission-based fee structure, in which the advisor or broker benefits from increasing the number of trades. Our fee-only approach aligns the company's goals with the client's goals, in that both parties benefit from a growth in the client's assets.

TD Ameritrade Institutional is the primary custodian for our client accounts. They charge a \$15 fee for each mutual fund, stock or exchange-traded fund trade placed in a client account. Shearwater Capital does not receive any portion of this fee.

Principals of Shearwater Capital are not charged annual fees on either their personal accounts or accounts of immediate family members. Employees of Shearwater Capital and members of their immediate family may receive reduced fees.

Clients are invoiced in advance at the beginning of each calendar quarter based upon the value (market value or fair market value in the absence of market value), of the client's account at the end of the previous quarter. Valuations are derived from recognized and independent pricing sources. New accounts are charged a prorated fee for the remainder of the quarter in which the account was opened.

Shearwater Capital sends each client an invoice showing the amount of the fee, the fee percentage, and the value of the client's assets on which the fee was based.

The Investment Management Agreement specifies the fee structure. Clients may provide written limited authorization to Shearwater Capital to withdraw fees from their accounts. Clients may also choose to pay their fees via credit card or personal check.

The Investment Management Agreement may be canceled at any time, for any reason, and by either party upon receipt of 30 days written notice. The client also has the right to terminate the Agreement without penalty within five business days after entering into it.

All fees paid to Shearwater Capital for investment supervisory services are separate and distinct from the fees and expenses charged by mutual funds to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and possibly a distribution fee. A client could potentially invest in mutual funds directly, without the services of Shearwater Capital. In this case, the client would not receive the services provided by Shearwater Capital which are designed, among other things, to assist in determining which securities are most appropriate to each client's financial condition and objectives. In addition, DFA funds are typically not available to the client directly. The client should review the fees charged by Shearwater Capital and the fees charged by the funds to fully understand the total amount of fees to be paid by the client and to evaluate the advisory services being provided.

#### Types of Clients:

Shearwater Capital primarily provides investment advice to individuals and families, although the firm will also work with companies, pension and profit-sharing plans, and non-profit organizations. The types of accounts managed by Shearwater Capital include, but are not limited to, the following:

1. Individual accounts (taxable)
2. Joint accounts (e.g., Joint Tenants With Right of Survivorship; Tenants-in-Common)
3. Trust accounts
4. Individual Retirement Accounts (IRAs)
5. Roth Individual Retirement Accounts (Roth IRAs)
6. Qualified retirement trust accounts (e.g., 401(k) plan accounts, profit-sharing plan accounts)
7. Cash balance plan accounts
8. Simplified Employee Pension Plan Individual Retirement Accounts (SEP IRAs)
9. Savings Incentive Match Plan for Employees of Small Employers (SIMPLE IRAs)

The minimum account size for a new client is \$50,000, however, this requirement can be waived at the discretion of the company Principals.

### Types of Investments:

For most clients, we create a portfolio of no-load mutual funds tailored to the asset allocation strategy described in the client's Investment Policy Statement. Although we are free to select from a wide range of financial securities, we rely mainly on mutual funds offered by Dimensional Fund Advisors (DFA) to construct our client portfolios. DFA funds are not available directly to individuals, but are limited to institutional investors and clients of a select group of financial advisory firms. Each DFA fund is designed to capture the returns of a specific asset class, unlike index funds which merely replicate market indexes. DFA funds use innovative trading strategies and portfolio engineering to provide added value. DFA funds generally have lower portfolio turnover and lower annual fees and expenses than actively managed funds.

In addition to open end mutual funds, such as DFA funds, we also select from the following types of securities in constructing client portfolios:

1. Exchange-traded funds
2. Exchange-traded notes
3. Individual stocks
4. Corporate debt securities
5. Commercial paper
6. Certificates of deposit
7. Municipal bonds
8. Variable annuities
9. United States government bonds
10. Government bonds issued by other countries

### Methods of Analysis, Sources of Information, and Investment Strategies:

Shearwater Capital's security analysis is based on a number of factors including those derived from commercially available software technology, securities rating services, general market and financial information, due diligence reviews and specific investment analysis that clients may request. Shearwater Capital's main sources of information include commercially and/or publically available investment services, financial newspapers, periodicals and issuer-prepared information.

Shearwater Capital also receives historical market analysis, risk/return analysis, and continuing education from Dimensional Fund Advisors. Shearwater Capital's investment advice is based on long-term investment strategies incorporating the principles of Modern Portfolio Theory. Our investment approach is rooted in the belief that markets are relatively efficient and that investor returns are determined principally by asset allocation decisions. We build diversified client portfolios principally through the use of DFA funds that are available only to institutional investors and clients of a network of selected investment advisors.

All investment strategies involving equities entail some degree of risk. However, Shearwater Capital seeks to limit risk through broad global diversification. Shearwater Capital's investment philosophy is designed for investors who desire a buy and hold strategy, with an investment time horizon of a minimum of five years, and preferably ten years or more. Shearwater Capital seeks to minimize brokerage and other transaction costs by avoiding frequent trading of securities whenever possible. Investors who insist on more frequent trading, market timing, or active security selection may not achieve positive long-term results.

Although Shearwater Capital emphasizes a long-term, disciplined approach to investing, we also provide investment advice regarding short-term and intermediate-term holdings, based on the client's needs. For example, if a client is interested in saving for a down payment on a house in the next one or two years, our investment advice will be tailored to meet those needs.

Margin accounts can be established at TD Ameritrade Institutional at the client's request. We usually advise clients against taking margin loans; however, in some circumstances margin loans provide a reasonable method of raising cash without having to sell the underlying securities. We generally advise clients who take margin loans to limit the size of the loan and to repay it as quickly as possible.

#### Education and Business Background:

Portfolio managers hold a minimum of a bachelors degree and a masters degree in business administration. Portfolio managers are also required to have passed the appropriate examinations required by the regulatory agencies. The educational backgrounds and employment histories of Shearwater Capital's key personnel are described below:

Jeffrey J. Brown

Title: Principal

Formal education: BS, MD, MBA, CFA

NASAA Series 65 Examination: Passed in 1999

Chartered Financial Analyst (CFA): Charter awarded in 2004

Business background:

1. Medical school professor: Since 1988
2. Principal, Shearwater Capital: Since 1999

Jeffrey J. Brown is a Professor of Radiology at Washington University in St. Louis, Missouri. This is Dr. Brown's principal business. It involves clinical work, teaching, and research in the field of radiology and does not involve providing investment advice.

Eric S. Malden

Title: Principal

Formal education: BA, MD, MBA

NASAA Series 65 Examination: Passed in 1999

Business background: Medical school professor (1997-1999)

Private practice radiology: Since 2000

Eric S. Malden is a radiologist with Radiology Imaging Associates in Denver, Colorado. This is Dr. Malden's principal business. It involves providing clinical diagnostic and interventional radiology services and does not involve providing investment advice.

Jared Meese

Title: Chief Compliance Officer

Formal education: BS, MBA

NASAA Series 65 Examination: Passed in 2007

Business background:

1. Environmental Scientist, 2001-2007

2. Investment Representative, 2000-2001

Jared Meese is a full-time employee of Shearwater Capital.

#### Participation or Interest in Client Transactions:

Jeffrey Brown, Eric Malden and Jared Meese each have a substantial portion of their financial assets managed by Shearwater Capital. Their accounts are managed in a similar fashion to the client accounts and hold many of the same securities. On a given day, all trades for the Brown, Malden and Meese accounts are placed either at the same time or after all client trades to avoid any potential benefit from the clients' trades (referred to as "front-running") or the potential to adversely influence the clients' fill prices.

#### Review of Accounts:

The performance of each client account is monitored on at least a quarterly basis. The asset allocation of each account is reviewed at least annually. The asset allocation of each account is compared to the target asset allocation noted in each client's Investment Policy Statement. One of the company principals (either Jeffrey Brown or Eric Malden) is responsible for the review of all client accounts.

Each quarter, an account performance report and gain/loss statement is sent to every client. Quarterly reports include each account's end-of-quarter balance and rate of return. A billing statement accompanies each performance report. Clients also receive monthly account statements directly from the account custodian. These statements provide details regarding the securities, transactions and cash positions within each account. A beginning and ending account balance also appears on the monthly account statements.

#### Investment Brokerage Discretion:

Client accounts are established in the client's name, or in the name of the appropriate trust, company, or non-profit organization. Shearwater Capital has discretionary trading privileges for each account including the selection of securities and the amount of securities to be bought or

sold. However, Shearwater Capital does not hold or bundle client assets in our company name; specifically, client assets remain unbundled in individual client accounts in the individual client's name at the custodian. Shearwater Capital recommends broker-dealers with low transaction costs and efficient trade executions. However, the client may select another broker-dealer of his or her choice. A client who chooses to designate use of a particular broker or dealer should recognize that commissions vary and may not be competitive with other broker-dealers or with commissions that other clients of Shearwater Capital may pay.

#### Proxy Voting:

Many securities provide voting rights to the owner of the asset. Clients are given the option to have us vote their shares for them. For these clients, the Chief Compliance Officer (J. Meese) reviews proxy statements and supporting documents for the securities held in the client accounts and places proxy votes based on his informed opinion of the client's best interest. The proxy voting record is available upon request.

#### Independent Contractors, Registered Representatives and Solicitors:

Shearwater Capital may enter into arrangements with third parties, including independent contractors, registered representatives and/or solicitors to provide services on behalf of the firm. In some cases, these individuals may receive compensation, either directly or indirectly, for client referrals and assistance in managing the client relationship. In all cases, this arrangement will be disclosed to the client who is referred to Shearwater Capital. The payment to the third party has no effect on the fee charged to the client.

#### Complaint and Disciplinary Record:

Since Shearwater Capital was founded in 1999, there have been no complaints filed against the company with state or federal regulatory agencies and no disciplinary actions have been taken against the company or its principals or employees.

#### Code of Ethics:

Shearwater Capital has adopted a Code of Ethics to assure adherence to the highest ethical standards from all people involved in company business and client interactions. The firm's principals, employees, independent contractors, registered representatives, and soliciting agents are required to sign and abide by this Code of Ethics. The complete Code of Ethics is available by request. Its main points are noted below:

All employees, independent contractors and principals of Shearwater Capital, LLC agree that at all times, they will:

- Place the interests of every client ahead of their own interests;



- Protect the confidentiality of all personal client data;
- Conduct all personal securities transactions in such a manner to avoid any conflict of interest or any abuse of an employee's position of trust and responsibility;
- Make all investment management decisions in an independent manner and in the client's best interest;
- Uphold an impeccable standard of honesty, integrity and professionalism;
- Comply with all state and federal securities laws;

This list is not meant to be all inclusive. In each and every scenario the company policy is to "do the right thing" ethically, honestly and in the best interest of the client.