

# Threshold Group, LLC

## Part 2A of Form ADV

### The Brochure

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This brochure provides information about the qualifications and business practices of Threshold Group, LLC (“Threshold Group”). If you have any questions about the contents of this brochure, please contact us at 253-851-4300. 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.

Threshold Group is a registered investment adviser. Registration as an investment adviser does not imply any level of skill or training.

Additional information about Threshold Group is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2. Material Changes**

In 2010, the SEC required significant changes to the content and format of Part 2 of Form ADV. This brochure, which reflects those changes, is materially different from brochures used by Threshold Group in prior years.

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## **Item 4. Advisory Business**

### Firm History and Principal Owners

Threshold Group was founded in January 1999 and is primarily owned by RT Management LLC, which is primarily owned by the 2006 Threshold Return of Capital Trust. Edward Lazar, Threshold Group's President, and James Morton are the trustees of the 2006 Threshold Return of Capital Trust. As of December 31, 2010, Threshold Group managed approximately \$356.600,000 on a discretionary basis and approximately \$ 2,121,500,000 on a non-discretionary basis on behalf of approximately 160 clients. Threshold Group's assets under advisement, which include its assets under management, are approximately \$2,860,300,000.

### Services Provided

Threshold Group provides discretionary and non-discretionary investment advisory services.

Threshold Group will assist the client in creating the financial foundation that supports each client's lifestyle, legacy, and asset goals. Services offered by Threshold Group include:

- Development, implementation and monitoring of a documented investment plan;
- Asset Allocation – Developing models to allocate client assets among asset classes (e.g., equity, debt, government, foreign securities and real estate) to achieve client objectives;
- Asset Class Structure, Investment Manager Review and Monitoring – Developing guidelines for the number of money managers to manage the client's assets. Establishing the characteristics of the assets to be committed to each manager. Providing information with respect to the potential money managers to each asset class. Developing a process to monitor the progress of the investments toward the established objectives;
- Manager/fund research and recommendations;
- Custodian oversight and consolidated investment reporting;
- Evaluation, due diligence and oversight of alternative investments;
- Additional customized reporting based upon specific client needs and desires;
- Cash Flow – Advising clients on handling routine cash flow;
- Performance – Monitoring portfolio performance and providing clients periodic reports with actual and comparative portfolio performance; and

- Special Projects – Assisting clients on special projects in a wide variety of areas including research.

Threshold Group provides advice concerning the structure of a client's portfolio but not with respect to underlying securities. Threshold Group recommends money managers through separately managed accounts, private investment funds, mutual funds, and ETFs (collectively, "Investment Managers"), to make portfolio investments in accordance with specified investment objectives on portions of the total portfolio.

When the services provided are non-discretionary in nature, clients must approve the initial implementation and all subsequent changes to the asset allocation.

Additional information about Investment Managers, investment strategies, advisory fees and other pertinent information is available and provided in the Form ADV Part 2 or other disclosure brochure of the Investment Managers.

Threshold Group has formed a strategic relationship with Portfolio Advisors, LLC, an independent, full-service private equity firm. Threshold Group may recommend that clients invest in one or more of the private equity funds sponsored by Portfolio Advisors.

Threshold Group may use the Russell Separate Accounts ("RSA") program to assist it in making recommendations to clients. In the RSA portfolio overlay program, the client enters into a discretionary investment advisory agreement with Threshold Group; Threshold Group has correspondingly entered into a sub-advisory agreement with Parametric Portfolio Associates ("Parametric").

Further information about Portfolio Advisors and the RSA program is discussed below in Item 8, *Methods of Analysis, Investment Strategies and Risk of Loss*.

In certain circumstances Threshold Group may monitor non-Threshold Group-recommended Investment Managers for clients. Threshold Group will document the Investment Managers it is monitoring. Depending on the type of investment vehicle, monitoring involves reviews of Investment Managers newsletters, marketing materials, and performance, among other things.

In addition to investment advisory services, Threshold Group also provides family office services as further discussed below in Item 10, *Other Financial Industry Activities and Affiliations*.

## **Item 5. Fees and Compensation**

### Information on Fees

The annual fee for Threshold Group's advisory services, based on the market value of the client's account, is as follows:

- 50 basis points annually, on the first \$50,000,000.00 fair market value of the Account, plus
- 25 basis points annually, on the next \$50,000,000.00 fair market value of the Account, plus
- 20 basis points annually, on the balance of the Account.

Because of the differences in services provided to each client, fees are negotiable. Fees are based on the services required, which depends upon the account assets for which Threshold Group has consulting responsibilities, the recent rate of growth of a client's assets, breadth and depth of services required by the client and other relevant factors. Clients may also negotiate flat fees for Threshold Group's services.

Clients are invoiced in advance (at the beginning) of each calendar quarter based upon the simple average quarter-end values (market value or fair market value in the absence of market value) of the clients' account at the end of the previous two calendar quarters. The fee for the calendar quarter in which the investment advisory agreement becomes effective (as of the date the contract was signed) will be prorated for the number of days remaining in the quarter and based on market value at the beginning of the relationship or nearest prior quarter or month end value.

Certain clients of Threshold Group were previously clients of other investment advisory practices acquired by Threshold Group ("Acquired Clients"). Acquired Clients will be charged fees pursuant to individually negotiated fee schedules, which in some cases may be in excess of the fees identified above. Acquired Clients are charged quarterly in advance based on the prior quarter end's value of assets managed by Threshold Group. Acquired Clients may also negotiate flat fees for Threshold Group's services.

Threshold Group backs its work with this guarantee: If its clients' experience does not meet expectations, Threshold Group will adjust the fees to an amount the client believes reflects the level of service.

The fees charged by Threshold Group are separate and distinct from the fees charged by recommended Investment Managers. A description of these Investment Manager fees is available in each mutual fund's prospectus and private investment fund's and investment manager's disclosure documents. Similarly, Threshold Group's fees are separate and distinct from the fees and expenses charged by mutual funds and private investment funds which may be purchased by a recommended Investment Manager. These fees are also separate from any custodial fees. A description of these fees and expenses is available in each fund's prospectus and disclosure document.

Clients will also incur brokerage and other transaction costs, as further described in Item 12 - *Brokerage Practices* below.

Threshold Group does not independently value any securities held in client accounts. The periodic financial and performance information provided by the private funds themselves will be used as the basis for client reporting and fee billing (where a client pays an asset-based fee). This valuation is determined independently of Threshold Group. For marketable securities, the prices provided by custodians are used for client reporting and fee billing.

In some instances, precise account balances are unavailable to Threshold Group on a timely basis. Billing in those situations is therefore based on the most current information available when fees are calculated.

While Threshold Group makes every effort to obtain account balances directly from the custodian, for reporting purposes it may request that clients regularly provide Threshold Group with copies of account statements.

Threshold Group may charge an additional fee for monitoring non-Threshold Group-recommended Investment Managers.

#### Termination

A client agreement may be canceled at any time, by either party, for any reason upon receipt of 30-60 days written notice (as specified in the Client's agreement). Acquired Clients' agreements may be canceled at any time, by either party, for any reason upon receipt of 60 days written notice. Upon termination of any account, any prepaid, unearned fees will be promptly refunded.

## **Item 6. Performance Based Fees and Side-by-Side Management**

Clients will not be charged a performance-based fee by Threshold Group. Some investment advisers experience conflicts of interest in connection with the side-by-side management of accounts with different fee structures. However, these conflicts of interest are not applicable to Threshold Group.

## **Item 7. Types of Clients**

Threshold Group provides investment advisory services to a variety of high net worth clients, including foundations; high net worth individuals and families; private foundations; trusts, estates, or charitable organizations; and businesses.

The minimum assets under management for a client receiving Threshold Group's investment management services is generally \$50 million. Accounts below this minimum may be accepted at Threshold Group's discretion.

In addition, Threshold Group may compare a prospective client's profile to a set of predefined characteristics that Threshold Group believes are likely to determine whether or not the relationship between Threshold Group and the client will be successful. Threshold Group maintains the right to reject any prospective client relationship.

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

### Methods of Analysis and Investment Strategy

Threshold Group recommends various investment strategies when providing asset allocation recommendations to clients. The recommended strategies are based upon a client's goals and objectives. Threshold Group will evaluate various investment alternatives to form a basis for the client in determining the strategies needed to achieve the client's investment goals and objectives.

Threshold Group uses a variety of sources to identify appropriate Investment Managers for clients. For example, Threshold Group will use published databases of mutual funds, ETFs, and investment manager performance. Threshold Group does not independently audit or verify the performance figures reported by the Investment Managers that appear in these databases.

### *The RSA Program*

With respect to U.S. equities, Threshold Group may use the RSA program to assist it in making recommendations to clients. In the RSA portfolio overlay program, the client enters into a discretionary investment advisory agreement with Threshold Group; Threshold Group has correspondingly entered into a sub-advisory agreement with Parametric.

The RSA program combines managed accounts comprised of individual securities in one diversified portfolio using models provided by research providers. Upon adjustment/approval by Threshold Group, the manager mix will be conveyed to Parametric. Parametric is responsible for making discretionary trading decision to implement the models in the participating program accounts. Parametric will execute transactions according to its tax efficient management strategy, which may cause it to delay or defer causing the account to mirror its applicable model. Accordingly, Parametric may take actions for certain accounts that it does not for other accounts, even when such accounts are all intended to be managed to the same model. Parametric is responsible for providing periodic rebalancing services so the allocation of these accounts remains consistent with the selected model(s). Parametric is responsible for seeking best execution on transactions in program accounts.

Please note that certain accounts containing lower asset levels and qualified accounts may also participate in the RSA program, which enables them to benefit from the multi-manager, multi-asset allocation strategies. However, these accounts generally will not benefit from the tax efficient management strategy.

### *Portfolio Advisors*

Threshold Group has formed a strategic relationship with Portfolio Advisors, LLC, an independent, full-service private equity firm. Threshold may recommend that clients invest in one or more of the private equity funds sponsored by Portfolio Advisors. Portfolio Advisors believes that top-quartile private equity assets are attractive for client portfolios as they have historically generated high rates of return while providing a low historical correlation to more traditional

assets. Portfolio Advisors' investment strategy focuses on two fundamental tenets: managing risk through diversification and striving for superior returns by selecting top quartile managers.

### Risk of Loss - General

All investing involves a risk of loss and the investment strategy offered by Threshold Group could lose money over short or even long periods. Performance could be negatively impacted by a number of different market risks including, but not limited to, that portfolio management techniques used by Threshold Group may not produce the desired results. This could cause accounts to decline in value. In addition, Threshold Group may rely on information that turns out to be wrong. Threshold Group selects investments based, in part, on information provided by issuers to regulators or made directly available to Threshold Group by the issuers or other sources. Threshold Group is not always able to confirm the completeness or accuracy of such information, and in some cases, complete and accurate information is not available. Incorrect or incomplete information increases risk and may result in losses.

### Potential Risks of Investing in Securities Purchased in Mutual Funds, ETFs, and by Investment Managers:

**Stock Market Risk** - Stock market risk is the possibility that stock prices overall will decline over short or extended periods. Markets tend to move in cycles, with periods of rising prices and periods of falling prices.

Investing in small- and medium-sized companies involves greater risk than is customarily associated with more established companies. Stocks of such companies may be subject to more volatility in price than larger company securities.

**Foreign Securities Risk** - Foreign securities are subject to the same market risks as U.S. securities, such as general economic conditions and company and industry prospects. However, foreign securities involve the additional risk of loss due to political, economic, legal, regulatory, and operational uncertainties; differing accounting and financial reporting standards; limited availability of information; currency conversion; and pricing factors affecting investment in the securities of foreign businesses or governments.

**Interest Rate Risk** - Bonds also experience market risk as a result of changes in interest rates. The general rule is that if interest rates rise, bond prices will fall. The reverse is also true: if interest rates fall, bond prices will generally rise. A bond with a longer maturity (or a bond fund with a longer average maturity) will typically fluctuate more in price than a shorter term bond. Because of their very short-term nature, money market instruments carry less interest rate risk.

**Credit Risk** - Bonds and bond mutual funds are also exposed to credit risk, which is the possibility that the issuer of a bond will default on its obligation to pay interest and/or principal. U.S. Treasury securities, which are backed by the full faith and credit of the U.S. Government, have limited credit risk, while securities issued or guaranteed by U.S. Government agencies or government-sponsored enterprises that are not backed by the full faith and credit of the U.S. Government may be subject to varying degrees of credit risk. Corporate bonds rated BBB or

above by Standard & Poor's are generally considered to carry moderate credit risk. Corporate bonds rated lower than BBB are considered to have significant credit risk. Of course, bonds with lower credit ratings generally pay a higher level of income to investors.

**Liquidity Risk** - Liquidity risk exists when a particular security is difficult to trade. A mutual fund's investment in illiquid securities may reduce the returns of the mutual fund because the mutual fund may not be able to sell the assets at the time desired for an acceptable price, or might not be able to sell the assets at all.

**Call Risk** - Many fixed income securities have a provision allowing the issuer to repay the debt early, otherwise known as a "call feature." Issuers often exercise this right when interest rates are low. Accordingly, holders of such callable securities may not benefit fully from the increase in value that other fixed income securities experience when rates decline. Furthermore, after a callable security is repaid early, a mutual fund would reinvest the proceeds of the payoff at current interest rates, which would likely be lower than those paid on the security that was called.

**Objective/Style Risk** - All of the mutual funds and investment managers are subject, in varying degrees, to objective/style risk, which is the possibility that returns from a specific type of security in which a mutual fund or manager invests will trail the returns of the overall market.

**U.S. Government Agency Securities Risk** - Securities issued by U.S. Government agencies or government-sponsored entities may not be guaranteed by the U.S. Treasury. If a government-sponsored entity is unable to meet its obligations, the securities of the entity will be adversely impacted.

#### Potential Risks of Investing in Private Investment Funds:

##### *General*

Private investment funds generally involve various risk factors and liquidity constraints, a complete discussion of which is set forth in each fund's offering documents, which will be provided to each client for review and consideration. Investing in private investment funds is intended for experienced and sophisticated investors only who are willing to bear the high economic risks of the investment. Investors should carefully review and consider potential risks before investing. Certain of these risks may include loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices, lack of liquidity because of redemption terms and conditions and that there may not and will not be a secondary market for the fund, volatility of returns, restrictions on transferring interests in the fund, a potential lack of diversification, higher fees than mutual funds, lack of information regarding valuations and pricing, and advisor risk. Each prospective client investor will be required to complete a subscription agreement with the private investment fund itself, pursuant to which the client investor shall establish that he/she/it is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment. Private investment funds have liquidity risk and investors may not be able to redeem their investment per the offering document's disclosures.

In certain situations, Threshold Group may select or recommend to a number of its clients investments in certain private funds that invest in illiquid assets, including interests in other private funds (i.e., funds of funds). As a result, to the extent that Threshold Group's clients collectively own a material interest in such private funds, a determination/recommendation by Threshold Group for clients to simultaneously liquidate their holdings in one or more of these private funds may cause the private funds' managers to be forced to liquidate underlying positions quickly and therefore reduce the opportunity to realize maximum value for certain illiquid positions held by the fund. Similarly, in order to protect their funds from perceived inopportune liquidations, the private fund managers may impose restrictions on redemptions, otherwise known as "gating" the private fund.

#### *Risks Associated with Investing in Private Equity and Private Real Estate Funds*

**Long-term investment** - Unlike mutual funds, which generally invest in publicly traded securities that are relatively liquid, private equity funds generally invest in large amounts of illiquid securities from private companies. Depending on the strategy used, private real estate funds will have illiquid underlying investments that may not be easily sold, and investors may have to wait for improvements or development before any redemption. Given the illiquid nature of the underlying purchases made by private equity and private real estate managers, private equity and private real estate funds are considered long-term investments. Private equity funds are generally set up as 10- to 15-year investments with little or no provision for investor redemptions. Private real estate funds are generally seven- to ten-year investments and also have limited provisions for redemptions. With long-term investments, you should consider your financial ability to bear large fluctuations in value and hold these investments over a number of years.

**Difficult Valuation Assessment** - The portfolio holdings in private equity and private real estate funds may be difficult to value, because they are not usually quoted or traded on any financial market or exchange. As such, no easily available market prices for most of a fund's holdings are available. Additionally, it may be hard to quantify the impact a manager has had on underlying investments until those investments are sold.

**Lack of Liquidity** - Private equity and private real estate funds are not "liquid" (they cannot be sold or exchanged for cash quickly or easily), and the interests are typically nontransferable without the consent of a fund's general partner. As a result, private equity and private real estate funds are generally only suitable for sophisticated investors who have carefully considered their financial capability to hold these investments for the long term.

**Capital Call Default Consequences** - Answering capital calls to provide managers with the pledged capital is a contractual obligation of each investor. Failure to meet this requirement in a timely manner could elicit significant adverse consequences, including, without limitation, the forfeiture of the defaulting investor's interest in the fund.

**Leverage** - Private equity and private real estate funds may use leverage in connection with certain investments or participate in investments with highly leveraged capital structures. Although the use of leverage may enhance returns and increase the number of investments that can be made, leverage also involves a high degree of financial risk and may increase the exposure of such

investments to factors such as rising interest rates, downturns in the economy or deterioration in the condition of the assets underlying such investments.

## **Item 9. Disciplinary Information**

Threshold Group and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

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

### General

In addition to its investment advisory services, Threshold Group provides family office services, which include: estate transfer and income tax planning; private wealth education; advice on philanthropy; reporting, compliance and administrative services (including bill payment services); education for family members; and other services. Fees for these services are negotiated separately from the fees payable for investment advisory services.

Neither Threshold Group nor any of its related persons receive any form of compensation from any recommended Investment Manager.

Indirect owners of Threshold Group may be investors and/or partners/members in private investment partnerships, limited liability companies, or corporations that invest in securities or private equity opportunities. Certain of the investors in the private investment partnerships, limited liability companies or corporations may also independently be clients of Threshold Group. Threshold Group does not act as an adviser, sponsor or placement agent for these private investment partnerships, limited liability companies or corporation.

### SMS Investment Company, LLC

Threshold Group's wholly owned subsidiary is SMS Investment Company, LLC ("SMSIC"), an SEC registered investment adviser. SMSIC does not provide continuous and regular investment management services and does not earn asset-based fees. Its sole basis for SEC registration is that it is controlled by and shares a principal place of business with Threshold Group. SMSIC provides investment advice to five institutional and individual clients.

Duncan Smith serves as Investment Consultant for SMSIC through his wholly owned corporation, LDS Consulting, Inc. It is expected that he will dedicate 50% of his time to these relationships. Information obtained and analysis of investments used in the management of Threshold Group client assets may also be used to provide investment advice to SMSIC clients.

Mr. Lazar spends a de minimus amount of his time on activities related to SMSIC and its clients.

### Russell Investments

George Russell, Jr., an indirect owner of Threshold Group, was previously employed and was an owner of Russell Investments, formerly known as Frank Russell Company. He was a registered representative of Russell Implementation Services, a FINRA registered broker-dealer and division of Russell. Threshold Group will only recommend Russell Investments as a service provider to its advisory clients if such a recommendation is in the best interest of its clients and neither Threshold Group nor Mr. Russell receives compensation with respect to such recommendation.

Russell Investments also makes available to Threshold Group products and services that benefit

Threshold Group and may or may not benefit its clients' accounts, including but not limited to, marketing support, training and/or use of facilities.

In addition, Russell Investments provides certain products, services and access to Russell Investments personnel to assist Threshold Group in managing and administering client accounts. These include the provision of research and other market data, and assistance with back-office support and specialized reporting. Many of these services generally may be used to service all or a substantial number of Threshold Group's accounts, including accounts utilizing the RSA program.

The availability to Threshold Group of the foregoing products and services is not contingent upon Threshold Group committing to Russell Investments any specific amount of business (assets in custody or trading).

## **Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

To avoid any potential conflicts of interest involving personal trades, Threshold Group has adopted a Code of Ethics (“COE”), which includes personal trading reporting and review policies and procedures and insider trading policies and procedures. Threshold Group’s COE requires, among other controls, that Employees:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets;
- Place the integrity of the investment profession, the interests of clients, and the interests of Threshold Group above one’s own personal interests;
- Adhere to the fundamental standard that one should not take inappropriate advantage of his or her position;
- Avoid any actual or potential conflict of interest wherever possible;
- Conduct all personal securities transactions in a manner consistent with the COE;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities;
- Practice and encourage others to practice in a professional and ethical manner that will reflect positively on oneself and the profession;
- Promote the integrity of, and uphold the rules governing, capital markets;
- Maintain and improve one’s professional competence and strive to maintain and improve the competence of other investment professionals; and
- Comply with applicable provisions of the federal securities laws.

Threshold Group’s COE also requires Employees to: 1) pre-clear certain personal securities transactions, 2) report personal securities transactions on at least a quarterly basis, and 3) provide Threshold Group with a detailed summary of certain holdings and securities accounts (both initially upon commencement of employment and annually thereafter) over which such Employees have a direct or indirect beneficial interest.

A copy of Threshold Group’s COE is available to any client or prospective client by contacting Threshold Group’s Chief Compliance Officer at 253-851-4300.

Some of the owners of Threshold Group are investors and partners or members in several private investment partnerships, limited liability companies or corporations that invest in securities or private equity opportunities. It is not contemplated that these investments will be offered to new clients of Threshold Group, although legacy clients may have invested in these vehicles.

In the normal course of business, managers, members and/or associated persons of Threshold Group may provide gifts and gratuities to various clients and other persons. These gifts, gratuities

and contributions are not premised upon any specific client referrals or any expectation of any other type of benefit to Threshold Group.

## Item 12. Brokerage Practices

### General

When Threshold Group acts pursuant to discretionary authority, it has the authority to make all investment decisions on the client's behalf, including selecting the broker-dealer(s) with whom securities transactions may be placed (when applicable). When acting without brokerage discretion over client accounts, at the client's request, Threshold Group may recommend broker-dealers to execute transactions for the client's account. In either case, Threshold Group may consider the quality and reliability of the brokerage services, as well as research and investment information and other services provided by the brokers or dealers. Commission rates, being a component of price, are one factor considered by Threshold Group together with other factors. In making broker-dealer selections/recommendations, Threshold Group is not obligated to seek in advance competitive bidding for the most favorable commission rate applicable to any particular transaction for the client's account or select/recommend any broker or dealer on the basis of its purported posted commission rate. Accordingly, brokers or dealers may charge commission rates in excess of the amounts another broker or dealer would have charged for effecting transactions when Threshold Group has determined in good faith that the broker's or dealer's commission rates generally are reasonable in relation to the value of the brokerage and/or research provided by the broker or dealer.

Threshold Group may recommend that clients establish accounts with custodians to maintain custody of clients' assets and, in some cases, to affect trades for their accounts. Although Threshold Group may recommend a custodian, it is the client's decision to choose a custodian. The custodians provide Threshold Group with access to institutional trading and custody services typically not available to retail investors. These services generally are available to independent investment advisors at no charge to them so long as clients maintain a designated minimum amount of assets at the custodians. The custodians' services include execution of securities transactions, research, brokerage, custody, access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment. The custodians also make available to Threshold Group other products and services that benefit Threshold Group and may not benefit its clients' accounts. Some of these other products and services assist Threshold Group in managing and administering clients' 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 Threshold Group fees from its clients' accounts, and assist with back-office support, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of Threshold Group accounts, including accounts not maintained at the specific custodian providing the benefit. The custodians may also provide Threshold Group with information and consulting services intended to help Threshold Group manage and further develop its business enterprise. These services may include compliance, legal and business consulting, publications and conferences on practice management and business succession, and access to employee benefits providers, human capital consultants and insurance providers. The custodians 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 Threshold Group. The availability to Threshold Group of the foregoing products and services is not contingent upon Threshold Group committing to the custodians any specific amount of business (assets in custody or trading).

When negotiating fees on behalf of Threshold Group's clients, the custodians take into consideration the entire Threshold Group relationship and not individual clients. Aggregating Threshold Group clients' assets with fewer custodians should result in lower negotiated fees.

Each Investment Manager that Threshold Group selects/recommends to its clients generally will have investment discretion over that portion of the client's accounts managed by the particular Investment Manager. The client will have a direct contractual relationship with each such Investment Manager and should receive disclosures from each such Investment Manager of its internal practices, including allocation brokerage, aggregation of orders, and use by the Investment Manager of "soft dollars" to obtain research products and services from broker-dealers based on customer orders placed through the brokers. The designation by a client of a particular broker-dealer for execution of client account transactions (particularly if it differs from the brokers used by that Investment Manager for execution of most of the Investment Manager's other client accounts) may affect the commission rates and the method and pricing of execution of the client's account transactions for the portion of the client's portfolio managed by a particular Investment Manager. The client is urged to review each Investment Manager's disclosures on brokerage practices in deciding whether to direct the Investment Manager to use a particular broker-dealer for execution of the client's portfolio transactions.

#### Trade Errors

Any trade errors will be rectified to make the client whole as if the error did not occur.

#### Order of Trading

Because Threshold Group provides investment advice to both discretionary and non-discretionary clients, there exists a potential conflict of interest between the timing of trades for discretionary clients and the seeking of approval for such trades from non-discretionary clients. As such, Threshold Group has adopted the following procedure that will apply when global trades/allocation occur:

1. Non-discretionary clients will be notified of the prospective trade contemporaneously with the inception of trading for discretionary clients.
2. As Threshold Group receives approvals to the transaction from non-discretionary clients, these clients' accounts will be traded, and therefore may be interspersed, with discretionary client trades.

#### Trade Aggregation

Threshold Group generally does not aggregate orders for clients, which could potentially achieve a better average price on ETF transactions for clients.

### Directed Brokerage

Clients may have a pre-established relationship with a broker and they will instruct Threshold Group to execute all transactions through that broker. In directing the use of a particular broker or dealer, clients may lose out on a certain benefits that may otherwise be obtained and it should be understood that Threshold Group will not have authority to obtain volume discounts. Consequently, if the client selects its own broker or dealer to execute transactions for the client's account, the client may forfeit more favorable commission rates and execution rates than would be the case if it utilized the broker or dealer recommended by Threshold Group.

Where a client places transactions with Russell Implementation Services or any of its correspondent brokers, the client makes the decision to do so. In these cases, the client may be, but is not necessarily, doing so in part for commission credits to offset fees due pursuant to a written agreement.

### **Item 13. Review of Accounts**

Client accounts generally are reviewed quarterly by the Investment Advisors, whose biographies appear in the Supplement to this Form ADV. Triggering factors include material changes in a client's financial situation, as well as political and economic events.

The performance of the Investment Managers is generally reviewed on a quarterly basis. Investment Managers are typically reviewed by the Investment Analysts. Triggering factors include changes in an Investment Manager's management team or advisory fee, as well as political and economic events. The timeliness of these reviews is based upon the accessibility of information from Investment Managers.

All investment management clients are furnished with an appraisal of their portfolio assets at the end of each calendar or fiscal quarter. Additional reports relative to account performances and transactions are provided on a client by client basis as needed or requested.

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

Threshold Group does not directly or indirectly compensate any person for client referrals.

## **Item 15. Custody**

Threshold Group can access many clients' accounts through its ability to debit advisory fees. Threshold Group also provides a service to certain clients where it will receive bills and invoices payable by clients (e.g., utility bills, invoices for personal and domestic services) and pay such bills using Threshold Group's access to the clients' bank accounts. This access may be through online banking tools or signature authority over client checking accounts. Finally, personnel of Threshold Group may serve as trustee for certain clients' trusts or hold a general power of attorney over their accounts.

Due to its engagement in each of the above activities, Threshold Group is considered to have "custody" of client assets. However, all clients' accounts are held in physical custody by unaffiliated broker-dealers or banks. Account custodians send statements directly to the account owners on at least a quarterly basis. Clients should carefully review these statements, and should compare these statements to any account information and statements provided by Threshold Group.

## **Item 16. Investment Discretion**

Threshold Group offers clients investment management services as covered in the Investment Advisory Agreement where each client's investment portfolio is managed on a regular and continuous basis. Threshold Group may assist client in determining, among other things, suitability, investment objectives, goals, time horizons, and risk tolerances. Threshold Group will manage advisory accounts on a discretionary and/or a non-discretionary basis.

Each client is advised that it remains his/her/its responsibility to promptly notify Threshold Group if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Threshold Group's previous recommendations and/or services.

Clients must also execute a limited power of attorney to permit Threshold Group to trade their accounts.

When Threshold Group acts pursuant to discretionary authority, it has the authority to make all investment decisions on the client's behalf, including selecting the broker-dealer(s) with whom securities transactions may be placed (when applicable).

For non-discretionary clients, Threshold Group may not make investment decisions, including buying or selling securities, for the client without prior consultation with and consent of client. The client understands that they may forego a particular transaction if Threshold Group cannot obtain that consent. Notwithstanding the above, Threshold Group may act without specific client consent for non-discretionary clients in the following limited circumstances (as further clarified in the client's investment advisory agreement with Threshold Group):

- An extreme emergency situation that is likely to substantially affect client assets and where the client is unreachable
- Pursuant to a preauthorization to transfer cash among certain family members' accounts as is necessary to meet such family members' cash needs
- Pursuant to a preauthorization to sell assets (as necessary) to raise funds for client cash needs.
- Pursuant to a preauthorization to reinvest excess cash, subject to the client's defined investment objectives and constraints.

Clients can place reasonable restrictions on Threshold Group's investment management. For example, some clients have asked Threshold Group not to sell certain securities where the client has a particularly low tax basis.

Each Investment Manager that Threshold Group selects or recommends to its clients generally will have investment discretion over that portion of the client's accounts managed by the particular Investment Manager.

Threshold Group currently manages or advises numerous advisory accounts and these accounts may have or will have investment objectives that are identical or substantially similar to other

accounts. It is not anticipated that accounts having identical or substantially similar investment objectives will have identical or substantially similar investment portfolios. Differing investment portfolios can be expected to result from several factors, including, without limitation, the following: different investment decisions made by the different advisory teams assigned to the clients; regulatory constraints that apply to certain accounts but not to others; investment constraints imposed by the client; and the amount of cash available for investment at certain times. As a result of factors such as these, accounts may have a different investment portfolio (and, as a result, different performance results) from other accounts even though the accounts have identical or substantially similar investment objectives. Advisory teams are authorized to invest the assets of accounts for which they have investment responsibility in a wide range of underlying investments. As a result, it is expected that the accounts will have different investment portfolios resulting from different investment decisions made by their respective advisory teams. In addition, there may be circumstances when one account will sell a security while another account may purchase the security on the same day.

In performing any of its services, Threshold Group shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. If requested by the client, Threshold Group may recommend the services of other professionals for implementation purposes. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from Threshold Group.

Among the assets to which Threshold Group provides its continuous and regular investment management services are assets held by clients in their 401(k) and 529 Plan accounts with various mutual fund companies. Because Threshold Group will be responsible for effecting the transactions in these accounts, it will request the client's user name and password that permits online access to the account. Appropriate physical and procedural safeguards have been adopted by Threshold Group to control access to the user names and passwords obtained by Threshold Group.

## **Item 17. Voting Client Securities**

Threshold Group will not exercise proxy voting authority over client securities. The obligation to vote client proxies shall at all times rest with clients. Clients shall in no way be precluded from contacting Threshold Group for advice or information about a particular proxy vote. However, Threshold Group shall not be deemed to have proxy voting authority solely as a result of providing such advice to clients.

Should Threshold Group inadvertently receive proxy information for a security held in a client's account, then Threshold Group will immediately forward such information on to the client, but will not take any further action with respect to the voting of such proxy. Upon termination of its Agreement with a client, Threshold Group shall make a good faith and reasonable attempt to forward proxy information inadvertently received by Threshold Group on behalf of the client to the forwarding address provided by the client to Threshold Group.

Parametric is responsible for voting proxies within the RSA program.

With regard to all matters (other than proxies) for which shareholder action is required or solicited with respect to securities beneficially held in clients' accounts, such as (i) all matters relating to class actions, including without limitation, matters relating to opting in or opting out of a class and approval of class settlements and (ii) bankruptcies or reorganizations, Threshold Group disclaims responsibility for electing/voting (by proxies or otherwise) on such matters and will not take any action with regard to such matters.

## **Item 18. Financial Information**

Threshold Group has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.