

Item 1- Cover Page

# Lee Financial Corporation

## Form ADV

Amended April 30, 2012

*This Brochure provides information about the qualifications and business practices of Lee Financial Corporation. If you have any questions about the contents of this Brochure, please contact us at (972) 960-1001. 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.*

*Additional information about Lee Financial Corporation is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

*We are registered with the Securities and Exchange Commission, which does not imply a certain level of skill or training. The oral and written communications we provide to you, including this Brochure, is information you may use in your decision to hire us or continue a professional relationship with us.*

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## **Item 2**

### **MATERIAL CHANGES (Amended April 2012)**

This is our annual update and filing of our Form ADV, within it contains the following material changes from our last ADV document dated March 31, 2011. This summary includes only material changes, therefore not all changes to the document are discussed here.

#### **Summary of Material Changes**

**Item 5 Fees and Compensation on page 12**

The description of Fair Market Value has been amended to include the valuations provided by auditors as an additional outside source for valuing assets.

**Item 7 Types of Clients on page 13**

Asset under management minimum size of the typical client we advise previously stated as \$3 million has changed to no minimum asset size.

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

Dana Pingenot President of Lee Financial joined Board of Directors to NATC, a custodian of some of LFC client's accounts.

The following list of partnerships that closed during 2011, and as a result are no longer in existence, and therefore were removed from this ADV amendment.

LFC Premier Partners, Ltd.  
LFC Defined Payment, Ltd  
LFC Select Payment Fund, Ltd

The remaining partnerships holdings were amended to reflect activities that occurred during the year. Assets that were purchased or aquired were added, and assets that were sold or liquidated were removed.

At any time we may update this brochure and send you a copy or offer to send you a copy by electronic means (e-mail) or in hard copy form.

If you would like another copy of this brochure, you may download it from our website [www.leefin.com](http://www.leefin.com), or from the Security and Exchange Commission's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov), or you may contact our Chief Compliance Officer, Kirsten Mires, at (972) 960-1001.



## FORM ADV 2012 RECEIPT

I acknowledge receipt of Lee Financial Corporation's Amended Form ADV dated April 30, 2012 on the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
*Signature*

\_\_\_\_\_  
*Printed Name*

**Please date, sign, and return this receipt to:**

Lee Financial Corporation  
Attn: Compliance Department  
12222 Merit Drive, Suite 1500  
Dallas, Texas 75251



We are pleased to provide you with a copy of our current Form ADV, which contains important information about our firm and the services we offer to you. We are providing the information in accordance with Rule 204-3 of the Investment Advisers Act of 1940 that requires a registered investment adviser to supply a written disclosure document to individuals prior to entering into any advisory relationship. You may receive additional detailed information about the information contained in this brochure by contacting our Chief Compliance Officer, Kirsten Mires.

Thank you for choosing Lee Financial Corporation.

Respectfully yours,

Dana L. Pingnot, CFP<sup>®</sup>, CLU  
President

### **Item 3**

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## **Item 4 - Advisory Business**

### *Who We Are*

Lee Financial Corporation (LFC) was founded in 1975 by Richard R. Lee, Jr. CFP® CFA as one of the first fee-only financial planning and investment advisory firms in Texas. LFC is independently owned and operated. Our principal owners and executive members are Richard R. Lee, Jr. CFP® CFA (CEO and Founder), Dana L. Pingnot, CFP® CLU (President), and Teresa Quinn, CPA CFA (Vice President).

We provide personalized financial planning and investment management services. Financial planning is the cornerstone of the firm's services with most of our clients. "Fee-only" means Lee Financial is paid through fees received from our clients. We believe if an advisor stands to gain financially from the purchase of any investment or insurance product there is an increased potential for conflict of interest. Our allegiance is to our client, and our incentive is to serve our clients' best interest.

We have developed a team approach to provide financial planning and investment management services. To manage your financial assets we believe it is necessary to understand your goals and objectives in all areas. We add value by helping you define specific goals, providing analysis for the possibility for meeting the goals, monitoring your progress reaching those goals, redefining goals as appropriate, and assisting in the management of the financial assets that play a role in achieving those goals.

### *Our Philosophy*

Our success in helping individuals, families, and businesses achieve their goals lies in our holistic approach - the WholeVision™ process. WholeVision™ is a term that describes what we believe to be your complete financial picture. WholeVision™ consists of four types of capital: Human Capital, Financial Capital, Fulfillment Capital and Shared Capital. Each is vitally important in its own way to overall wealth. We work closely with you to establish goals for personal growth and fulfillment, managing your financial planning needs and opportunities around your vision.

### *Human Capital*

Human Capital is comprised of each individual's unique talents, skills, and education. We spend our lives building our Human Capital in different ways as we pursue our individual goals and objectives. Human Capital is particularly unique in that it is your most sustainable resource that helps to define who you are, and is usually primary resource for accumulating wealth.

### *Financial Capital*

Financial Capital consists of the working capital we create and use daily. This is the targeted capital we save and invest for specific goals such as financial security and education. It is also the contingency capital we use for risk management and unforeseeable events. We work closely to protect and build your Financial Capital through careful, ongoing planning and investing.

### *Fulfillment Capital*

Fulfillment Capital is the most personal form of capital and is a vital component for realizing personal success. These are the most memorable and rewarding experiences that fill our hearts and minds. Finding this Fulfillment often drives and defines our goals.

### *Shared Capital*

Shared Capital is intended for the benefit of others. We may share this Capital voluntarily with our family and community or involuntarily, through the taxes we pay. When Shared Capital is distributed, it influences our Human Capital, Financial Capital, and Fulfillment Capital.

All forms of capital interact to establish a complex and evolving picture of wealth. We help manage these diverse aspects of wealth to cultivate your security, success, and fulfillment.

### *Our Team Approach*

The typical LFC client receives both financial planning and investment management services from a team of advisors. LFC has four primary types of advisors: a Senior Financial Planner, a Associate Financial Planner, a Senior Portfolio Manager, and an Investment Analyst.

### *Financial Planning*

Our Senior Financial Planners and Associate Financial Planners make up our financial planning team. They gather your financial information, develop your financial plan, present and continually monitor your plan throughout the long-term relationship. Our Financial Planners do not get involved in providing investment advice. Our financial planning team will help you establish and achieve personal and financial goals while assessing risk and helping you prepare for planned and unexpected life events. These services may include:

- Goal development and tracking
- Balance sheet development
- Cash flow planning and budgeting
- Insurance review (life, property and casualty, disability, long-term care, health)
- Income tax review
- Financial independence/retirement planning
- Legacy development/estate planning and wealth transfer
- Education planning
- Charitable foundation management and charitable giving
- Business development and succession planning

### *Investment Management*

Our Investment Strategy Team cultivates each portfolio to meet unique needs for liquidity (cash), stability, current income, long-term growth, tax efficiencies (as appropriate), and risk tolerance. Our Investment Strategy Team consists of our Senior Portfolio Managers, Associate Portfolio Managers and Investment Analysts.

Our Portfolio Managers will advise you and make recommendations on investment opportunities and manage your investment portfolio in attempt to achieve your goals and objectives. During your typical meeting, your Portfolio Manager will discuss your investment portfolio. Investment Analysts spend their time on research and analysis of the investment opportunities recommended for you. Investment Analyst's are not actively involved in your meetings. They work to ensure that the investment options provided to you are thought-out and researched.

Investment diversification is an important means of attempting to reduce risk and providing income and growth of capital over time. As appropriate, some portfolios are further diversified for growth through alternative investment assets or strategies.

We believe that transparency is important in portfolio management. We strive to provide clear information on the portfolios we manage for you, including performance, risk and tax-related information. We devote time in your meetings to review portfolio positions, performance, and the reasons behind any changes we may recommend. Our hope is for you to be familiar with the investment strategies utilized in your portfolio, and we encourage you to ask questions about any simple or complex portfolio matters. You may impose restrictions on investing in any security or type of security.

### *Investment Policy Statement (IPS)*

Our Portfolio Managers assist in establishing your Investment Policy Statement (IPS). The IPS outlines portfolio strategies designed to meet your financial needs and goals. The Portfolio Managers determine how your portfolio should be allocated based on factors including, but not limited to:

- Cash flow needs;
- Liquidity;
- Taxes;
- Risk tolerance levels; and,
- Your portfolio needs and unique characteristics.



## *Understanding Your Investment Policy Statement*

An IPS is not a contract between LFC and you. Its purpose is to provide an overview of your current status, needs, and long-term goals. The IPS helps us establish an appropriate investment portfolio allocation and strategy to meet your expectations, goals and objectives within a risk and return range that fits your needs. We use the following processes to complete your IPS:

- Assess your current and expected future financial situation and identify your goals and needs
- Determine your expectations on risk and potential loss
- Your previous investment experience and your investment time horizon
- Set long-term investment portfolio needs and objectives
- Identify any required or desired restrictions on your portfolio and its assets
- Determine the framework of asset classes and allocation criteria generally suited to meet the investment objectives within your known or perceived risk allowances
- Create an understanding of the investment methodology to be used regarding the management of your investment portfolio including, but not limited to:
  - Manager selection;
  - Rebalancing;
  - Buy-sell disciplines; and,
  - Portfolio reviews and reporting.
- Establish the structure for implementing your investment plan decisions.

Additionally, the IPS helps define the responsibilities regarding the management of your portfolio. It encourages effective and routine dialogue between you and us to maintain and update the portfolio management process as needs and objectives change over your lifetime.

It must be understood there can be no guarantee regarding the attainment of goals or investment objectives outlined in your IPS. The IPS serves only as a guide to the investment process.

## *Specialized Services*

### *Human Capital Services*

Our Human Capital Strategy Team is a specialized team that handles very complex client situations, and addresses the impact of your Human Capital on your overall asset base. The Human Capital Strategy Team:

- Assists you in business transitional situations including growth of an enterprise, business acquisition or sale, and/or partner buyout.
- Strategizes the means to grow your relationships through business and social contacts, knowledge networks, and collaborative partners.
- Conceptualizes and creates visual presentations and models to illustrate stock positions, business dynamics, real estate holdings, and tax implications.

We will help develop your Human Capital potential so you receive the most benefit from your unique talents, skills, and education. Human Capital services may result in additional fees to clients depending upon the scope of projects.

### *Foundation Services*

A foundation is an organization that provides alternatives for philanthropic gifts. Each foundation is established with its own mission, vision, goals, and objectives. We do not create the legal documents required to establish a foundation. We only offer management services for private family foundations which include:

- Establishment of the foundation;
- Screening and evaluation of grant options;
- Creation and management of investment portfolio assets; and/or
- Coordination of foundation activities.

### *Fiduciary Appointments*

We may occasionally agree to serve as a trustee for a client's legal Trust. A Trust is a separate entity whose scope is established within a legal document. These appointments are distinct from our normal fiduciary capacity. To serve as a trustee to a client's trust, approval must be granted by LFC's Fiduciary Committee and Chief Compliance Officer (CCO) before the firm will accept the appointment. If approved, clients must appoint a representative of LFC as the fiduciary. The trustee appointment is outside the scope of LFC's normal and customary services, there will be an additional fee charged to provide this additional service. LFC is not, and does not act as, a trust company.

### *Services Not Included*

We are not a CPA firm nor a law firm. We do not prepare personal income or corporate tax returns nor practice law. Advice from our licensed Certified Public Accountants (CPAs) or our in-house attorney is limited to the scope of financial planning or investment management services we provide to you. We do not participate in wrap fee services. Wrap fee service bundles investment advisory and brokerage fees into a flat fee structure. This means that LFC does not collect any brokerage fees, since we are not a brokerage firm.

### *Managed Assets*

As of December 31, 2011, we managed the following client assets:

Discretionary:	\$803,090,025
Non-Discretionary:	\$94,057,424

“Discretionary” means Lee Financial has your approval to manage your account(s), including placing trades without seeking consent on each marketable securities trade. “Non-Discretionary” means Lee Financial does not have your approval to manage your account(s), and you must approve every financial transaction.

## **Item 5 - Fees and Compensation**

### *Fee Calculation Methods*

The base fee for Lee Financial’s services is either a calculated fee determined by the total amount of assets’ fair market value (as described below) managed by Lee Financial or a fixed minimum fee amount based on the complexity of the level of services you require, whichever is greater. The calculated fee is as follows:

- 1.0% of fair market value of managed assets less than \$10 million plus;
- 0.75% of fair market value of managed assets \$10 million to \$20 million plus;
- 0.50% of fair market value of assets \$20 million to \$30 million plus;
- 0.35% of fair market value of assets over \$30 million.

Managed assets by Lee Financial consist of those funds and securities you wish Lee Financial to exercise supervision and investment authority. Your managed assets fair market value is determined on the last business day of each calendar quarter. Fees are paid quarterly in advance. Fees are generally deducted directly from your account, but can be billed to you upon request. Additional requested services may change your base fee structure. Exceptions to this fee model are investments that pay LFC an Investment Management Fee as noted in item 10 below in the detailed disclosure of each investment vehicle. Commonly, these are affiliated partnership investments managed by LFC.

Under limited circumstances, our fees may be negotiable.

Fair market value is typically the value the assets traded at in the secondary market, but could also be the valuation provided by an outside source such as an administrator, auditor or pricing service, or as valuation is described by an investment entity' offering documents.

#### *Contract Termination*

You or Lee Financial may terminate our contract with thirty days written notice. Thirty days after your contract is terminated, any prepaid but unearned fees are refunded to you. Refunded fees are prorated by day.

#### *Human Capital Services Fees*

Certain Human Capital services may be included in our basic fee structure. If you want specialized Human Capital services, an additional fee is required.

#### *Additional Fees and Expenses*

Your fee payable to us does not include all the fees you will pay if we purchase or sell securities for your account(s). Here are some examples of fees or expenses that you pay directly to third parties, whether a security is being purchased, sold or held in your account(s) under our management. These fees are charged by your broker dealer or custodian. LFC is not affiliated with any broker or custodian. We do not receive, directly or indirectly, any of these fees charged to you. These fees are paid to your broker, custodian, or to the mutual fund or other investment manager you hold. The fees may include but are not limited to the following:

- Brokerage commissions
- Transaction fees
- Investment management, advisory fees, performance fees and Administrative fees charged by Mutual Funds (MF), Exchange Traded Funds (ETFs), sub advisors, hedge funds or other investment vehicle
- Custodial fees
- Deferred sales charges (for mutual funds or annuities)
- Transfer taxes
- Wire transfer and electronic fund processing fees.

In addition, we do not directly or indirectly receive any compensation from the sale of securities or investments purchased or sold for your account. Since we are a "Fee only" investment adviser, we do not have a financial benefit that would create potential conflicts of interest regarding any additional compensation from you or the assets we manage.

## **Item 6 - Performance Based Fees**

We do not charge or accept any performance based fees. Performance based fees are in addition to advisory fees that share of the capital appreciation of the funds or securities in your accounts (known as “performance based fees”).

## **Item 7 - Types of Clients**

Our clients are thoughtful people who make careful, intelligent decisions for themselves and their families. As our client, we realize that you are unique and thus deserve an approach designed specifically for you. At Lee Financial, our method is not a formula or a static procedure, but a constantly evolving process designed to take full advantage of available resources and help you make decisions that will assist you to achieve your most important goals.

We are currently accepting new clients. Our typical client has the ability and Human Capital to attain greater wealth and is committed to integrating both financial planning and investment management to meet their goals. Our experience has shown us that clients meeting both of these criteria are the ones poised to most benefit from our services. Clients have the ability to choose what services they receive from us, such as investment advisory only, or financial planning only. Services are based on what is typically needed for an individual at various wealth levels. We expect to remain as Investment Advisor to clients whose assets are declining in size (e.g. those in retirement who are drawing capital out), until asset size decreases to \$50,000. However, we will use our best judgment to determine if we believe a client can still benefit from our services at amounts different than that.

Our firm also provides services to:

- Trusts
- Estates
- Charitable organizations
- Private equity
- 401K Plans – investments selections
- Corporations or other business entities.

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

### *Our Investment Strategies and Methods of Analysis*

LFC uses an investment committee to determine which investments will be utilized in client portfolios. Our investment committee reviews investment analysis and strategies on a stand-alone basis and as a part of the whole portfolio asset allocation. LFC uses several methods of analysis to determine our investment strategies. We use diversification and asset allocation methods utilizing different types of assets to help manage risk within client portfolios. We utilize a team approach to conduct research, select and recommend appropriate investments, and closely monitor investments. Our Investment Strategists and Investment Analysts review issues in the marketplace and potential impact to your portfolio(s). For specific investments, fundamental analysis of the assets and or strategy is used. Fundamental analysis attempts to study macroeconomic factors (like the overall economy and industry conditions) and company-specific factors (like financial condition and management) that can affect the security's value. LFC utilizes outside managers such as mutual funds, ETFs and other private investment managers such as for real estate, energy, private equity, private debt, and hedge funds. Analysis of investment managers includes reviews of the assets, strategy and the manager, as well as the opportunity that strategy has in the market. Quantitative analysis is also used within portfolios focusing on statistical information generated by historical performance results.

We use many sources of information to perform due diligence and analysis such as outside research, financial news outlets, federal and legal business filings, and our extensive network within the industry.

### *Investment Management Selection and Monitoring*

The selection of investment managers including mutual funds, separate account managers, and Limited Partnership sponsors is based on various criteria such as:

- Skill and historical success of the individual manager with a particular strategy
- The current economic environment
- The likelihood of future investment success of a strategy relative to other opportunities
- Expenses compared to other funds of similar strategies or styles
- Size of the proposed fund
- The historical and future expected volatility and downside risk of each proposed investment
- How each proposed investment complements other assets in the portfolios.

Investments are chosen and monitored on an individual level as well as a combined portfolio level. Investment performance will not be compared to a single benchmark. Your portfolio(s) are reviewed in context with a combination of broad market indices that best reflect your goals and risk tolerance. Examples of broad market indices include:

- The Barclays Aggregate Bond Total Return as an indicator of the total U.S. bond market
- The MSCI EAFE Index Total Return as an indicator of global markets



- The S&P 500 Total Return as an indicator of the large cap U.S. markets
- The Dow Jones Industrial Average as an indicator of the largest known U.S. companies.

All markets, businesses and investments go through cycles. There could be extended periods of time in which investment return objectives are not met or when specific managers fail to meet expectations. You must understand and accept the fact that, in the absence of specific circumstances requiring immediate action, patience and a longer-term perspective should be applied when evaluating investment performance.

### *Investment Strategies*

We approach managing your investment portfolios to best suit your goals including ongoing analysis and monitoring of your investments. The investment strategies we may use include, but are not limited to:

- Long-term purchases (securities held at least one year)
- Short-term purchases (securities sold within one year)
- Trading (securities sold within thirty days)
- Short sales - these investments make money when the stock value decreases
- Margin transactions - buying securities with a loan from your personal account(s)
- Stocks (also known as equities) Exchange-listed securities (e.g. securities listed on the NYSE or NASDAQ) Options:
  - An “option” is a contract that gives the buyer the right, but not the obligation, to buy or sell a security at a specific price on or before a certain date.
  - Call options give the option to buy at a certain price, so the buyer would want the stock to go up.
  - Put options give the option to sell at a certain price, so the buyer would want the stock to go down.
- Actively and passively managed mutual funds, separate accounts, or Exchange Traded Funds
- Warrants:
  - A “warrant” is a security that entitles the holder to buy stock of the issuing company at a specified price, which can be higher or lower than the stock price at time of issue.
- Corporate debt securities (other than commercial paper):
  - Bonds (or debt) issued by corporations
- Commercial paper
  - To help meet their immediate needs for cash, banks and corporations sometimes issue unsecured, short-term debt instruments known as “commercial paper.”
- Certificates of deposit (also known as bank CD’s)
- Municipal bonds (also known as “Munis”)
- Investment company securities:
  - Variable life insurance
  - Variable annuities
  - Mutual fund shares
- United States government securities (e.g. T-Bills, Treasury Notes, Government Bonds)

Alternative Investments: Partnerships or privately managed investments. Some examples of alternative assets or strategies include:

- Private real estate
- Private energy and natural resources
- Hedged equity or debt strategies:
  - The approach uses selective trading strategies that can limit or reduce the volatility of your investments, but is not guaranteed to do so.
- Distressed debt:
  - This is debt that is purchased from a company that is either bankrupt or near default.
- Arbitrage strategies:
  - Taking advantage of the difference in prices on securities in the markets to make a profit is known as Arbitrage.
- Private debt:
  - This term describes when investors loan money (usually through the sale of bonds) to private companies.
- Private equity:
  - This is the purchase of stocks in private companies.

#### *Additional Information on Partnerships*

For clients that meet certain requirements, we may utilize a wide array of Limited Partnerships that can provide the opportunity for significant portfolio diversification. Partnerships are private investment structures of pooled assets for a predetermined investment theme (e.g. real estate, oil and gas, hedge funds, distressed debt). Partnerships are either liquid or illiquid. Liquid partnerships allow investors to redeem or purchase units from the General Partner. Illiquid partnerships do not provide an option to redeem or purchase units from the General Partner.

#### *Types of Partnerships*

These alternative investments are Limited Partnerships or Joint Ventures. The Partnerships are organized for various purposes for example:

- Acquire property to develop into commercial real estate projects such as office buildings, shopping centers, warehouse buildings
- Purchase interests in entities that invest in real estate properties or that make real estate loans
- Purchase interests in entities that produce and sell producing oil and gas reserves, own royalty interests in producing oil and gas reserves, own securities of companies in energy and/or energy related industries, and own and purchase other natural resources
- Invest in hedge funds utilizing a specialized strategy or manager skill level
- Invest in assets that have special circumstances.



## *Risk of Loss*

Investing in any type of security involves taking risk, including the loss of capital, meaning either the permanent or temporary loss of value. Our active approach to investment management may have an impact on your portfolio's performance. Stock markets and bond markets may substantially fluctuate over time. In addition, performance is not guaranteed on any investment. As a result, there is market risk of loss of the assets that is out of our control. We will do our best to prudently manage your assets; however, we cannot guarantee any specific level of performance or that you will not experience any loss of your account assets. Additionally, there are times when certain types of strategies may not perform as well as other types of strategies.

Each investment carries degrees of risk and the level of risk depends primarily on the investment type. The risks of specific types of managed investments are more fully described within their specific offering documents such as a prospectus, or private offering memorandum. Our use of alternate investment strategies carry unique risks that may not be found in other investment strategies. These risks include but are not limited to:

- **Transparency Risk:**
  - Many private investment offerings limit the amount of information available on holdings of the fund. It is widely believed that reporting of holdings especially during the time of purchase or sale would alert competitors who may also hold or want to hold the securities of the increased volume of trading resulting in less successful trading. The added risk of secrecy means that investors do not always know exactly what they own, and the portfolio may contain holdings that the investor may not have anticipated when they made the investment. An extreme example of this would be if you invested in a stock fund, and the manager used the assets to purchase private debt without telling you.
- **Potential for Capital Call:**
  - In some types of partnerships, you may be required to periodically pay money into the fund or partnership. Some of those payments are expected and planned. However, some of them can be unexpected. For example, if the tax payments for a real estate investment suddenly increase, you may be required to pay more money into the fund than originally expected.
- **Liquidity Risk:**
  - Liquidity refers to how quickly you can turn an investment into cash, or to find a buyer for the assets. Some investments take significantly longer than others to convert into cash. Examples are real estate investing which includes an unknowable investment timeframe and is significantly less liquid than a common stock that trades constantly on an exchange.
- **Marketability Risk:**
  - Marketability refers to the ability to sell an investment to another party. Most alternative assets such as Limited Partnerships are private which means that a market for buying and selling does not exist. Private investing requires permission by the General Partner, to transfer asset ownership which may not be granted or possible. If there are many investors that want to buy your investment, the investment is considered highly marketable. However, there may be times when another party is not willing to buy your investment.

- Counterparty Risk:
  - This is the risk that the other party will not be able to pay their obligations.
- Leverage Risk:
  - Some managers may use leverage, which can magnify changes in asset values during market fluctuations resulting in possible dramatic changes in value.

There are many types of risk that impact investing and it is important that you take the time to understand these risks. Our investment strategist will describe the investment risks they see as most likely, however it should be understood that not all risks can be foreseen ahead of time. It is your responsibility to ask your investment strategists about any risk you do not feel you understand.

## **Item 9 - Disciplinary Information**

We do not have any legal, financial or other disciplinary item to report. 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. This information applies to our firm, and our employees.

## **Item 10 - Other Financial Industry Activities or Affiliations**

Although LFC is registered as a Commodity Pool Advisor with the National Futures Association (NFA), this is not a material activity to our business or services provided.

### *Industry Affiliations and Associations Membership*

Some of our professional staff is a member of one or more of the following professional organizations:

- 100 Women of Hedge Funds
- American Bar Association (ABA)
- American Institute of Certified Public Accountants (AICPA)
- Chartered Financial Advisers (CFA) Institute
- Collaborative Law Institute of Texas
- Dallas Chapter of Certified Public Accountants
- Dallas Chapter of CFA Society
- Dallas Estate Planning Council
- DFW Financial Planning Association
- Estate Planning Council of North Texas
- Financial Planning Association (FPA)
- International Research Association (awards the Licensed International Financial Analyst (LIFA) designation)
- National Association of Personal Financial Advisers (NAPFA)
- Texas Bar Association (TBA)
- Texas Hedge Fund Association
- Texas Society of Certified Public Accountants
- Texas Wall Street Women
- Young Presidents Organization

### *Other Financial Industry Activities*

Lee Financial Corporation is the General Partner to the partnerships listed below which we offer or have offered in the past to our clients for investment purposes. Lee Financial created these partnerships so our clients could participate in a broader investment universe within private investment opportunities for a much lower minimum investment size than if our clients attempted to invest directly within the same assets individually. No client is required to invest in any of our partnerships. Client assets invested within an LFC partnership are excluded from billable assets to avoid double billing which would be a conflict of interest, more fully described below, and in Item 5 (Fees and Compensation).

As the General Partner, we may receive an Investment Management Fee. Generally, LFC collects a Management Fee at the partnership level; client assets invested in those partnerships are not included in your billable assets to avoid any potential of overbilling. Please see the disclosures listed below for the partnerships to which this applies. We view billing on client assets invested in the partnerships and on total assets as double billing as a conflict of interest. To remove any conflict of interest related to this, we remove partnership assets from client billable assets. We may administer the partnerships or hire a third-party administrator to manage the funds and the partnerships pay for the administrative costs of the partnership.

Below is a listing of LFC's partnerships (by category) and the fees charged by LFC and the fees charged by the underlying managers in which the funds are invested. The fees charged by underlying managers are paid by the partnership assets. The fees charged by outside underlying managers are not shared with LFC in any way, and are charged regardless if the client were to invest directly in that underlying asset, or by utilizing one of LFC's partnership pools. Investment recommendations into partnerships are accompanied by a Private Offering Memorandum which completely describes all the terms and conditions.

The following is a summary of partnership fees, but is not an offering of partnership interests.

### **ILLIQUID ASSETS**

#### ***Real Estate***

Addison, Arlington, Grapevine Land Ltd. (AAG) is a Texas Limited Partnership formed to invest in parcels of raw land in the cities of Addison, Arlington, Grapevine, and north Dallas, Texas. The investments were made through First Tier Partnerships.

LFC Austin Promontory Ltd. is a Texas Limited Partnership organized to acquire an undivided interest in six office buildings on Ridgpoint Drive in Austin, Texas.

T/E Promontory Point Ltd.: *General Partner of the First Tier Partnership is paid:*

- *A Due Diligence Fee of \$425,000;*
- *All accounting expenses incurred in having the annual tax returns and financial statements prepared for the Limited Partners;*
- *A Property Management Fee up to 4% of gross income per annum, payable monthly, of which a portion is paid to an unaffiliated property manager;*

- *Leasing Commissions: New leases 6.75% of the gross rental income including real estate brokers representing the tenants, renewal leases up to 6.75% of the gross rental income, also including real estate brokers representing the tenants;*
- *Construction Management Fee at the market rate;*
- *Real estate commission up to 6% of the sell price;*
- *General partner profits interest of 29.9% (after return of capital and preferred return); and,*
- *1% of the partnership profits and losses.*

LFC is reimbursed for administrative costs of the Partnership based on the hourly time spent performing such services. Based on the provisions in the partnership agreement, LFC is no longer billing a Management Fee on this partnership. This investment is excluded from clients' billable assets. (LFC Austin Promontory, Ltd. is an affiliated partnership however no management fees are paid in Addison Arlington Grapevine Land Ltd.)

Cedar Hill Note Partnership is a Texas Limited Partnership established for the purpose of owning, holding, using, improving, and otherwise dealing in the development, sell, or exchange of 4.803 acres of raw land in Cedar Hill, Texas.

LFC is reimbursed for administrative costs of the Partnership based on the hourly time spent performing such services. This investment is included in clients' billable assets.

Ellis Crowley Ltd. is a Texas Limited Partnership formed to own, hold, use, improve, and otherwise deal in the remaining one – half mineral interests related to 71.867 acres of certain real property.

LFC is reimbursed for year-end administrative costs of the Partnership based on the hourly time spent performing such services. This Partnership is excluded from clients' billable assets.

Everman Parkway Ltd. is a Texas Limited Partnership formed to own, hold, use, improve, and otherwise deal in the sell or exchange of 5.2 acres of certain real property.

The General Partner, LFC, is paid an Administrative Fee at the beginning of each month of \$200. This Partnership is excluded from clients' billable assets.

Frisco 116 Partnership No. 1 and Frisco 116 Partnership No. 2 own an interest in the joint venture Frisco Corner 116 Joint Venture that holds, uses, improves, and otherwise deals in the development, sell, or exchange of certain real property in Frisco, Texas.

LFC is reimbursed for administrative costs of the Partnerships based on the hourly time spent performing such services. These investments are included in clients' billable assets.

Frisco Corner 116 Joint Venture is a Texas Limited Partnership formed to hold, use, improve, and otherwise deal in the development, sell, or exchange of certain real property in Frisco, TX.

LFC is reimbursed for administrative costs of the Partnership based on the hourly time spent performing such services. This investment is excluded from clients' billable assets.

LFC Austin Promontory Ltd. is a Texas Limited Partnership organized to acquire an undivided interest in six office buildings on Ridgepoint Drive in Austin, Texas.

T/E Promontory Point Ltd.: *The General Partner of the First Tier Partnership is paid:*

- *A Due Diligence Fee of \$425,000;*
- *All accounting expenses incurred in having the annual tax returns and financial statements prepared for the Limited Partners;*
- *A Property Management Fee up to 4% of gross income per annum, payable monthly, of which a portion is paid to an unaffiliated property manager;*
- *Leasing Commissions: New leases 6.75% of the gross rental income including real estate brokers representing the tenants, renewal leases up to 6.75% of the gross rental income, also including real estate brokers representing the tenants;*
- *Construction Management Fee at the market rate;*
- *Real estate commission up to 6% of the sell price;*
- *General partner profits interest of 29.9% (after return of capital and preferred return); and,*
- *1% of the partnership profits and losses.*

LFC, the General Partner, is paid a quarterly Management Fee equal to 1/4 of 1% times the total net assets of the Partnership and is reimbursed all expenses for legal, accounting and printing services, and costs of qualification and Filing Fees incidental to formation of the Partnership. This investment is excluded from clients' billable assets.

LFC Borders Ltd. is a Texas Limited Partnership organized to invest in entities that: (i) purchase existing commercial properties, (ii) make loans which are secured by real estate, (iii) acquire existing properties (which may include truck stops, in-store fast food franchises and fuel distributorships) or sites to develop such properties, or (iv) operate properties. These properties may consist of office buildings, shopping centers, warehouse buildings and other real estate projects. The Partnership may also make: (i) direct investments in real estate identified by the General Partner, (ii) loans secured by real estate, and/or (iii) investments in Real Estate Investment Trusts (REITS) and similar entities. The General Partner of the underlying investments charges the following fees:

290-Land Ltd.:

- *Fees and Expenses: Due Diligence Fee of \$250,000;*
- *Distribution Priority: Return of capital and 10% preferred return; 70%/30% split until 15% IRR to Limited Partner is achieved; 60%/40% split of remaining profits. One of the principals of the General Partner is a client of LFC.*



Direct Investment Associates Fund I:

- *Fees and Expenses: Asset Management Fee: at market rates. Acquisition Fee: 0.50%. Development Fee: 6%. Disposition Fee: 0.50%;*
- *Distribution Priority: Return of capital and 9% preferred return. 80%/20% split until 12% IRR to Limited Partner is achieved. 60%/40% split of remaining profits.*

Garza Lane Ltd.:

- *Fees and Expenses: Acquisition Fee is 4% of purchase price.*
- *Distribution Priority: 7% preferred return and 40% of profits to the General Partner after return of Limited Partner capital.*

Greenway Mockingbird:

- *Greenway Investments, as a General Partner, receives an Asset Management Fee of \$450 per month;*
- *Greenway Investments, as a General Partner, receives an Acquisition Fee up to \$75,000;*
- *8% preferred return; and,*
- *The General Partner receives 8% of the profit after the Limited Partners receive a return of capital and 8% preferred return.*

IGY Fund IV:

- *Distribution Priority:*
  - *95% to Limited Partners and 5% to General Partner until return of Limited Partner capital and an 8% compounded annual return;*
  - *Next 70% to the Limited Partners and 30% to the general until the Limited Partners receive either/or a 20% simple annual return or 200% of aggregate capital contributions; and,*
  - *Thereafter, 50% / 50%.*
- *Fees and expenses:*
  - *All out-of-pocket expenses including without limitation, expenses incurred in conducting due diligence, negotiating, structuring and acquiring or disposing of investments and travel expenses including direct out-of-pocket costs of private aircraft usage, excluding any capital expenditures associated therewith up to the travel expense cap (\$350,000 per year);*
  - *All of the applicable share of direct administrative, operating, capital or other expenses including, without limitation, employee compensation and benefits, rent, insurance, copying, telephone, utility, legal, accounting, acquiring or leasing furniture, fixtures or equipment;*
  - *Employee compensation;*
  - *Covered office expenses;*
  - *Management Fees: Annual Asset Management Fee of 1.25% of the gross capitalization of IGY but not less than \$1 million;*
  - *Acquisition and Finance Fees: 1% of purchase price;*
  - *Disposition Fees: 1% of the gross proceeds; and,*
  - *Structuring Fee: 1.25% of the capital commitments of the Limited Partners.*

NEC Lake June and Masters Investors L.P.:

- *Redevelopment Fee: 6% of hard costs;*
- *Asset Management Fee: 0.3% of appraised value;*
- *Acquisition Fee: 0.5% of contract price;*

- *Disposition Fee: 0.5% of sales price;*
- *Distribution Priority: Preferred return 9% then 80% to the Limited Partners and 20% to the General Partner on cash flow. On sell, return of capital and 80%/20% to a 12% return, 75%/25% to a 13% return, 70%/30% to a 14% return, 65%/35% to a 15% return, and 60%/40% thereafter.*

NEC West Jefferson and Adams Investors L.P.:

- *Redevelopment Fee: 6% of hard costs;*
- *Asset Management Fee: 0.3% of appraised value;*
- *Acquisition Fee: 0.5% of contract price;*
- *Disposition Fee: 0.5% of sales price;*
- *Distribution Priority: Preferred return 9% then 80% to the Limited Partners and 20% to the General Partner on cash flow. On sell, additional return of capital and 80%/20% to a 12% return, 75%/25% to a 13% return, 70%/30% to a 14% return, 65%/35% to a 15% return, and 60%/40% thereafter.*

NWC Research and Ohlen Investors L.P.:

- *Redevelopment Fee: 6% of hard costs;*
- *Asset Management Fee: 0.3% of appraised value;*
- *Acquisition Fee: 0.5% of contract price;*
- *Disposition Fee: 0.5% of sales price;*
- *Distribution Priority: Preferred return 9% then 80% to the Limited Partners and 20% to the General Partner on cash flow. On sell, return of capital and 80%/20% to a 12% return, 75%/25% to a 13% return, 70%/30% to a 14% return, 65%/35% to a 15% return, and 60%/40% thereafter.*

Silvertree Fund II:

- *Fees and Expenses: Management Fee of 1.5%;*
- *Distribution Priority: Return of capital and 8% preferred return; a 70%/30% split until 19% IRR; thereafter, a 50%/50% split to the Limited Partner and the General Partner on a pro rata basis.*

WCP Real Estate Fund I:

- *WCP charges a 1.5% Management Fee and a 20% Incentive Fee and the Limited Partners receive an 8% preferred return and 80% of the profits.*

Grape Vine Market Center L.P.:

- *Redevelopment Fee: 6% of hard costs*
- *Asset Management Fee: .5% per annum of the tax appraised value, waived for one year*
- *Property Management Fee: At market rates*
- *Transaction Fee: \$31,500*
- *Distribution Priority: Return of capital and 9% preferred return. 50%/50% split of remaining profits.*

LFC, as the General Partner, is paid a quarterly Management Fee equal to 1/4 of 1% times the total net assets of the Partnership, and a monthly Administrative Fee of \$500. This investment is excluded from clients' billable assets.

LFC Century Ltd. is a Texas Limited Partnership formed to acquire property and develop the property into commercial real estate or to purchase existing commercial properties. The First Tier Partnerships General Partners assess the following fees:

Citivist (EDAL Ltd.):

- *Operating Expenses: All costs and expenses of the Partnership;*
- *Acquisition Fee of \$173,800; and,*
- *General Partner Profits: 50% of all profits (after return of capital and preferred return).*

Citivist Multifamily Portfolio:

- *All costs and expenses of the Partnership;*
- *Acquisition Fee of \$152,020; and,*
- *General Partner profits participation of 50% of all profits (after return of capital and preferred return).*

Holtze Magnolia L.L.L.P.:

- *All direct out-of-pocket expenses and hourly charges of employees who render services or computer costs allocable to the Partnership;*
- *A Management Fee of 4% of the annual gross revenue from the property and 12.5% of the annual gross operating profit;*
- *\$3.50 per occupied room per night for reservations booked through Steven Holtze Corporation reservation system; and,*
- *General Partner profits participation of 40% (after return of capital and preferred return).*

Ridge Texas Real Estate Partners L.P.:

- *All costs and expenses of the Partnership business; and,*
- *General Partner 5% cash flow and profits upon sell.*

LFC, the General Partner of LFC Century Ltd., is paid a quarterly Management Fee equal to 1/4 of 1% times the total net assets of the Partnership, is reimbursed the direct expenses relating to the offering and administration of the Partnership, and is paid an Administrative Fee of \$500 per month. This investment is excluded from clients' billable assets.

LFC Horizon Ltd. is a Texas Limited Partnership organized to acquire property to develop into commercial real estate projects or purchase existing commercial properties. These properties may consist of office buildings, shopping centers, warehouse buildings, and other real estate projects. The General Partners of the First Tier Partnerships are paid as follows:

Citivist III (EDAL Ltd.):

- *Acquisition Fee of \$419,300;*
- *Reimbursement will be made for all costs and expenses reasonably incurred by the General Partner with respect to the performance of its duties to the partnership, including, without limitation, legal and accounting fees; and,*
- *50%/50% split between general and Limited Partners; however, the General Partner's proceeds shall be reduced as necessary to ensure that the Limited Partners receive an 18% cash-on-cash return (per year) during the holding period for the amount of equity they had in the investment and return of their capital.*



PPC-Henderson Avenue Retail L.P.:

- *Phoenix Capital, the General Partner, will receive 50% of the profits after the Limited Partners receive a 10% preferred return and return of capital plus a 20% IRR hurdle up to 25% of the General Partners' interest;*
- *Upon restructure, an Acquisition Fee of \$75,000.00;*
- *Property Management Fee of approximately \$1,350 per month;*
- *Development Fee of \$228,000.*

PCP-Plano BPI Ltd.:

- *Developer Fee of \$200,000 each for Phases I and II and \$187,900 for Phase III;*
- *Property Management Fee of 3% of gross rental revenue;*
- *General Partner acting as listing agent 2% of net rental payments over the term of the lease;*
- *Investment banking fees of \$121,500 for Phase I and 1% of the total costs for Phases II and III;*
- *Disposition Fee 1% of the gross sales price or refinancing amount payable on sell or refinancing of the property;*
- *Loan Fee of \$19,437;*
- *Development Fee of \$220,000 for development General Partner payable monthly concurrently with the funding of the construction loan;*
- *Development General Partner 2% of the net rental payment on a co-brokered lease and 4.5% of the net rental payment on a non-co-brokered lease;*
- *Development General Partner 30% of profits; and,*
- *General Partner 20% of 70% of profits (after return of capital and preferred return).*

PCP-Proterra Ltd.:

- *An Investment Banking Fee of 0.75% of the total cost of each phase;*
- *Expenses, including but not limited to, travel expenses, and legal fees;*
- *Disposition Fee to Phoenix Capital Partners Ltd. of 0.75% of the gross sales price or refinanced amount;*
- *Management Fee to General Partners development partnership which is the greater of 3% of gross rents or \$500 per month per phase;*
- *Disposition Fee to General Partners development partnership which is 0.50% of the sales price or 0.25% of the loan refinanced amount;*
- *Marketing Agent Fee to General Partners Phoenix Capital of 0.75% of sales price;*
- *Development Fee to General Partners development partnership of 4% of the total cost of each phase; and,*
- *Profits of 25% to the development General Partners and 20% of 75% to the investment General Partners (after return of capital and preferred return).*

Sharyland Professional Office Partners I, LP.:

- *Management Fee of 4% of revenue;*
- *Development Fee of \$336,973; and,*
- *25% of the profits after 12% preferred return and return of capital.*

LFC, as the General Partner, is paid a quarterly Management Fee equal to 1/4 of 1% times the total net assets of the Partnership and a monthly Administrative Fee of \$500. This investment is excluded from clients' billable assets.

LFC Property Group Ltd. is a Texas Limited Partnership organized to purchase membership interests in Ridge Investors L.L.C. ("Ridge L.L.C."). Ridge L.L.C. will purchase Class A Shares of beneficial interest and Class B Shares of beneficial interest of Ridge Operating Trust, a Maryland real estate investment trust (the "Operating Trust"). Upon a subsequent restructuring of the Operating Trust, Ridge L.L.C. will become a shareholder in Ridge Property Trust, a Maryland real estate investment trust ("Property Trust"). The Property Trust intends to purchase, develop, lease, and manage industrial properties.

Fees: All operating expenses of the trust. The Ridge Investors L.L.C. General Partner will receive a Management Fee at current market rate. A waterfall distribution of profits from 100% to the Class A and B Shares to a 12.5% initial rate of return through a 50% to the Class C (Manager) Shares over a 25% initial rate of return to the Class A and B Shares.

LFC, as the General Partner, receives a quarterly Management Fee equal to 1/4 of 1% times the total net assets of the Partnership, and a monthly Administrative Fee of \$500. This investment is excluded from clients' billable assets.

LFC Property Group II Ltd. is a Texas Limited Partnership organized to purchase membership interests in Ridge Investors II L.L.C. ("Ridge L.L.C."). Ridge L.L.C. will purchase Class A Shares of beneficial interest and Class B Shares of beneficial interest of Ridge Operating Trust, a Maryland real estate investment trust (the "Operating Trust"). Upon a subsequent restructuring of the Operating Trust, Ridge II L.L.C. will become a shareholder in Ridge Property Trust, a Maryland real estate investment trust ("Property Trust"). The Property Trust intends to purchase, develop, lease, and manage industrial properties.

Fees: All operating expenses of the trust. The Ridge Investors L.L.C. General Partner will receive a Management Fee at current market rate. A waterfall distribution of profits from 100% to the Class A and B Shares to a 12% initial rate of return through a 55% to the Class C (Manager) Shares over a 22% initial rate of return to the Class A and B Shares.

LFC, as the General Partner, receives a quarterly Management Fee equal to 1/4 of 1% times the total net assets of the Partnership, and a monthly Administrative Fee of \$500. This investment is excluded from clients' billable assets.

LFC Province Ltd. is a Texas Limited Partnership (“Partnership”) organized to purchase a Limited Partnership interest in GIC–Mockingbird, L.P. (a Texas Limited Partnership). The Partnership may also purchase interests in other entities that invest in real estate properties or in entities that make real estate loans that the General Partner in its sole discretion determines appropriate for this Partnership (collectively, “First Tier Investment”). The First Tier Investment will either: (i) acquire property to develop into commercial real estate projects, (ii) purchase existing commercial properties, (iii) make loans which are secured by real estate, or (iv) invest in entities that own and/or operate properties as described in (i) and (ii). The First Tier Investment will hold the developed commercial property or existing commercial property for investment. These properties may consist of office buildings, shopping centers, warehouse buildings, and other real estate projects (“Properties”). The Partnership may also make: (i) direct investments in real estate identified by the General Partner, (ii) loans secured by real estate, and/or (iii) investments on a short-term basis in marketable securities including in Real Estate Investment Trusts (REITS) and similar entities. The General Partner of the First Tier Partnership is paid as follows:

GIC–Mockingbird L.P.:

- *Fees and Expenses: Transaction Fee: \$77,250. Administrative Fees: \$1,000 per month.*
- *Distribution Priorities: First LPs receive 7.5% preferred return; then a 60% Limited Partner/40% General Partner split of the remainder profits.*

Ridge Investors IV L.L.C.:

- *Fees and Expenses: All operating expenses of the Trust.*
- *Distribution Priorities: A waterfall distribution of profits from 100% to the Class A and B Shares to a 12.% initial rate of return through a 55% to the Class C (Manager) Shares over a 22% initial rate of return to the Class A and B Shares.*

Realty America Group (Shops at Highpointe) Retail L.P.:

- *Acquisition Fee: In an amount equal to one percent (1%) of the total project cost*
- *Asset Management Fee: In an amount equal to one half of one percent (0.5%) of the total project costs.*
- *Construction Management Fee: Of \$12,500 per month for the initial 18 months of the Partnership.*
- *Mortgage Fee: In an amount equal to one percent (1%) of the aggregate amount of any loan obtained by the Partnership.*
- *Upon acquisition of the Property, the Partnership shall enter into a development agreement with Realty America Group, L.L.C., as development manager, and the Partnership, as owner, providing for the payment of Development Fees equal to four percent (4%) of total project costs, payable monthly as such costs are incurred (Development Management Fees).*

Ridge Investors IV L.L.C.:

- *Fees and Expenses: All operating expenses of the Trust.*
- *Distribution Priorities: A waterfall distribution of profits from 100% to the Class A and B Shares to a 12.% initial rate of return through a 55% to the Class C (Manager) Shares over a 22% initial rate of return to the Class A and B Shares.*

Shop’s at Highpointe Lender, L.L.C. is a Texas Limited Liability Company organized to acquire a Certain Promissory Note from American National Bank of Texas and borrower Realty America Group (Shops at Highpointe) Retail L.P.

LFC, as the General Partner, is paid a quarterly Management Fee equal to 1/4 of 1% times the total net assets of the Partnership, and a monthly Administrative Fee of \$500. This investment is excluded from clients' billable assets.

Shop's at Highpointe Lender, L.L.C. is a Texas Limited Liability Company organized to acquire a Certain Promissory Note from American National Bank of Texas and borrower Realty America Group (Shops at Highpointe) Retail L.P.

Lee Financial has been elected the manager of the L.L.C. and as manager will be reimbursed for all out-of-pocket costs and expenses incurred in management duties.

LFC Regions Ltd. is a Texas Limited Partnership organized to: (i) purchase partnership interest in entities that purchase directly or through other entities ownership interests in developed and undeveloped real estate properties; (ii) purchase partnership interests in entities that focus on real estate investments in real estate used in the health care industry; and (iii) purchase partnership interests in entities which focus on real estate investments that focus on senior independent living facilities and related types of facilities. The General Partner of the First Tier Partnerships receives the following payments:

RSF Holdings L.P.:

- *The General Partner shall be entitled to reimbursement for all expenses incurred for the specific purpose of furthering the business of the Partnership; and,*
- *The RSF General Partner receives 50% of the profits after the Limited Partners receive a 10% preferred return and return of capital with an overall 14% IRR hurdle.*

Silver Tree Realty Fund 2003 L.P.:

- *A Management Fee of 1% of commitments;*
- *Fund expenses including research, due diligence, legal services, property management, and third-party out-of-pocket expenses; and,*
- *30% of the profits after return of capital and preferred return.*

Winghaven MOB L.P.:

- *The Cirrus General Partner will receive an Acquisition Fee of \$100,000;*
- *Plus Development and Administrative Fees up to \$274,194;*
- *Up to 4% of revenue for property management shared with a third party manager; ,*
- *The Cirrus General Partner receives 50% of the profits after the Limited Partners receive a 12% cumulative preferred return and return of capital.*

55 CL Ventures, LP: (restructured Winghaven MOB L.P.)

- The Partnership shall pay a leasing commission equal to the then prevailing market rate to The Cirrus Group, General Partner in connection with leasing activities.
- The Partnership shall pay a management fee not to exceed 3% of gross rental revenue to The Cirrus Group, General Partner.
- In the event that the General Partner procures a buyer for the property the General partner will be paid a fee equal to the brokerage commission that would have been paid to an unaffiliated broker.
- The Partnership shall reimburse The Cirrus Group General Partner for all out-of-



- pocket expenses incurred in management of the partnership.
- The Cirrus Group General Partner shall be paid overhead and administration fee in accordance with Approved Operating Budget (approximately \$30,000 per 2011 budget).
- The Cirrus General Partner receives 50% of the profits after the Limited Partners receive a 12% cumulative preferred return on their Class A interests and return of capital both Class A and B.

LFC, as the General Partner, receives a quarterly Management Fee equal to 1/4 of 1% times the total net assets of the Partnership, and a monthly Administrative Fee of \$500. This investment is excluded from clients' billable assets.

LFC Stanford Ltd. is a Texas Limited Partnership organized to purchase interests in entities that invest in real estate properties or in entities that make real estate loans. The General Partners or their affiliates of First Tier Partnerships receive the following payments:

CIG-Motor Retail L.P.:

- *GIC-Motor Retail GP L.L.C., the General Partner, shall be reimbursed for its actual third party costs incurred in connection with the organization of the Partnership and the acquisition of the property;*
- *GIC-Motor Retail GP L.L.C. will enter into an asset management and accounting services agreement at a fee not to exceed \$1,000 per month;*
- *GIC-Motor Retail GP L.L.C. will receive a Transaction/Development Fee of \$193,644 to be paid: (i) \$75,000 upon the complete execution of the Partnership agreement; (ii) \$50,000 at such time as the property is at least sixty-five percent leased and occupied; (iii) \$68,644 payable during the construction of the property; and,*
- *GIC-Motor Retail GP L.L.C. will receive 40% of the profits after the Limited Partners have received a 7% preferred return and return of capital.*

Equastone Value Fund L.L.C.:

- *Equastone management will be reimbursed for expenses incurred in connection with the organization of the fund up to 2% of the capital raised;*
- *Equastone management will receive an annual Management Fee of 1.5% of the capital under management; and,*
- *Equastone management will receive 20% of the profits after the Limited Partners receive a 9% preferred return and a return of the capital. There is a look-forward and a clawback on individual property sales.*

Greenway-Corner Campbell L.P.:

- *GIC Campbell L.L.C., the General Partner, shall be reimbursed for its actual third party costs incurred in connection with the organization of the Partnership and the acquisition of the Investment Interest;*
- *GIC Campbell L.L.C. will enter into an asset management and accounting services agreement at a Fee not to exceed \$1,000 per month;*
- *GIC Campbell L.L.C. will receive a Transaction Fee of \$125,000 in connection with the acquisition of the investment interest; and,*
- *GIC Campbell L.L.C. will receive 40% of the profits after the Limited Partners have received a 7% preferred return and return of capital.*

Melissa 419 L.P.:

- *Vintage Equities, the General Partner, receives 25% of profits after Limited Partners receive a 9.5% preferred return and return of capital; and,*
- *Vintage Equities, the General Partner, will be reimbursed the reasonable and necessary business expenses for the operation of the Partnership.*

PPC-Henderson Avenue Retail L.P.:

- *Phoenix Capital, the General Partner, will receive 50% of the profits after the Limited Partners receive a 10% preferred return and return of capital plus a 20% IRR hurdle up to 25% of the General Partners' interest.*
- *Upon restructure, an Acquisition Fee of \$75,000.00.*
- *Property Management Fee of approximately \$1,350 per month.*
- *Development Fee of \$228,000.*

Winghaven MOB L.P.:

- *The Cirrus General Partner will receive an Acquisition Fee of \$100,000;*
- *Plus Development and Administrative Fees up to \$274,194;*
- *Up to 4% of revenue for property management shared with a third party manager; and,*
- *The Cirrus General Partner receives 50% of the profits after the Limited Partners receive a 12% cumulative preferred return and return of capital.*

55 CL Ventures, LP: (restructured Winghaven MOB L.P.)

- The Partnership shall pay a leasing commission equal to the then prevailing market rate to The Cirrus Group, General Partner in connection with leasing activities.
- The Partnership shall pay a management fee not to exceed 3% of gross rental revenue to The Cirrus Group, General Partner.
- In the event that the General Partner procures a buyer for the property the General partner will be paid a fee equal to the brokerage commission that would have been paid to an unaffiliated broker.
- The Partnership shall reimburse The Cirrus Group General Partner for all out-of-pocket expenses incurred in management of the partnership.
- The Cirrus Group General Partner shall be paid overhead and administration fee in accordance with the Approved Operating Budget (approximately \$30,000 per 2011 budget).
- The Cirrus General Partner receives 50% of the profits after the Limited Partners receive a 12% cumulative preferred return on their Class A interests and return of capital both Class A and B.

LFC, the General Partner, is paid a quarterly Management Fee equal to 1/4 of 1% times the net assets of the Partnership and is paid an Administrative Fee of \$500 per month. This investment is excluded from clients' billable assets.

LFC Terra Ltd. is a Texas Limited Partnership comprised of First Tier Partnerships that acquire property to develop into commercial real estate projects and hold for investment. These projects may consist of office buildings, shopping centers, warehouse buildings, and other real estate projects. The General Partners of the First Tier Partnerships are paid as follows:

GW-Southlake Office Partners L.P.:

- *A one-time Transaction Fee of \$22,500;*
- *A Property Management Fee not to exceed \$300 per month; and,*
- *30% of General Partner profits (after return of partner equity and preferred return).*

Trademark/Emerson Centreport Tech:

- *1% of the Partnership's profits and losses;*
- *A Development Fee of \$200,000;*
- *A Construction Management Fee of 3% of the construction contract amount;*
- *All partnership operating fees and expenses;*
- *A Property Management Fee and asset Management Fee of 4% of gross receipts;*
- *Brokerage commissions;*
- *A sales commission of 1% of the sales price upon a sell; and,*
- *General Partner distributions operating income of 13.33% of cash from operations; and,*
- *30% General Partner profits (after return of partners' capital and preferred return).*

LFC, the General Partner, receives a quarterly Management Fee equal to 1/4 of 1% times the total net assets of the Partnership and a monthly Administrative Fee of \$500. This investment is excluded from clients' billable assets.

North Dallas Joint Venture is a Texas Joint Venture that acquires, owns, and holds for appreciation, leases, maintains, and operates or otherwise deals in the sell or exchange of 28.3386 acres of raw land in north Dallas, Texas.

LFC is paid an Administrative Fee of \$300 per month. This investment is included in clients' billable assets.

### ***Energy Equipment and Property***

LFC Energy Resources Ltd. is a Texas Limited Partnership that will purchase interests in entities that: (i) produce and sell producing oil and gas reserves; (ii) own royalty interests in producing oil and gas reserves; (iii) own securities of companies in energy and/or energy related industries; and (iv) own and purchase other natural resources. The General Partners of First Tier Partnerships charge the following fees:

EnerVest Energy Institutional Fund S-A L.P.:

- *Annual Management Fee of 1½% of total capital contributions made by Limited Partners; and,*
- *Once the Limited Partners have received 100% of their capital contributions plus a preferred return of 9%, then the General Partner will receive 20% of any remaining distributions.*

Hall-Houston Exploration:

- *The General Partner of Hall-Houston Exploration will receive 10% until Limited Partners' aggregate capital contributions are repaid, then 20% until the Limited Partners receive 30% IRR, afterwards General Partner will receive 30% of the profits; and,*
- *The General Partner will be reimbursed for all partnership expenses.*

Kayne Anderson Energy Fund III L.P.:

- *Annual Management Fee of 2% of the capital commitment to the Limited Partnership during the commitment period. After the commitment period, the General Partner receives an annual Management Fee of 1½% of the total capital contributions made by the Limited Partners; and,*
- *Once the investors have received 100% of their capital contribution plus a compound annual rate of return of 8%, then the General Partner will receive 20% of any remaining distributions.*

Quantum Resources Fund A (Domestic) L.P.:

- *The General Partner will receive a Management Fee of 1.25% per annum during the investment period and 1.25% of book value of partnership assets thereafter;*
- *The General Partner will be reimbursed for all partnership expenses;*
- *The General Partner of Quantum Resources will receive a 14% carried interest after return of capital to the Limited Partner and an 8% preferred return; and,*
- *The General Partner of Quantum Resources will receive a 2% carry at the working interest ownership level.*

Trunk Bay Royalty Partners L.P.:

- *The General Partner of Trunk Bay will receive a credit of 15% of the capital invested; and,*
- *The Partnership will reimburse the General Partner for all direct and indirect costs and expenses in organizing the Partnership and acquiring interests.*

LFC, the General Partner, is paid a quarterly Management Fee equal to 1/4 of 1% times the net assets of the Partnership and is paid an Administrative Fee of \$500 per month. This investment is excluded from clients' billable assets.

LFC Energy Royalty Ltd. is a Texas Limited Partnership ("Partnership"). The Partnership was organized to purchase Limited Partnership interests in Bitter End Royalties L.P.

Bitter End Royalties L.P.:

- *The General Partner of Bitter End Royalties L.P. will receive a 15% interest in the Partnership from inception.*
- *The General Partner of Bitter End Royalties L.P. will be reimbursed for general and administrative costs including expenses, salaries and benefits associated with buildings, computers, telephone service and employees of the General Partner or its affiliates, and other general and administrative expenses associated with the General Partner's administrative functions relation to the Partnership's business.*

LFC, the General Partner, is paid a quarterly Management Fee equal to 1/4 of 1% times the net assets of the Partnership and is paid an Administrative Fee of \$500 per month. This investment is excluded from clients' billable assets.



LFC Matrix Resources Ltd. The Partnership was organized to purchase interests in entities which: (i) provide structured debt financing in the energy sector; (ii) produce and sell producing oil and gas reserves; (iii) own royalty interests in producing oil and gas reserves; (iv) operate in infrastructure areas; (v) own and purchase natural resources such as coal, water, timber and wind; and (vi) own securities of companies in energy or energy related areas. The Partnership may make investments on a short-term basis in marketable securities of entities in the energy sector. The General Partner of the underlying investments charges the following fees:

Natural Gas Partners IX L.P.:

- *Fees and Expenses: Management Fee of 2.0% of the Committed Capital, Organizational Fees up to \$2,000,000.*
- *Distributions: 100% to Limited Partners until Return of Capital and Preferred Return of 8% is achieved; then an 80% Limited Partner/20% General Partner split of remaining profits.*

Quantum Resources II L.P.:

- *Fees and Expenses: Management Fee of 1.25% on invested capital.*
- *Distributions: 100% to Limited Partners until Return of Capital and 8% Preferred Return is achieved, and then General Partner's Incentive Compensation is 14% of profits.*

Tuckerbrook Real Assets Fund:

- *Management Fee of 1.0% annually of capital commitments, organizational expenses up to \$100,000, and all Funds operational expenses in connection with the conduct of its business.*
- *Distributions: 100% to Limited Partners until Return of Capital and Preferred Return of CPI-U+1% per quarter (not to exceed 2.25%) is achieved; then return of capital and a catch-up to the General Partners to 5% of distributions then profits split of 95% Limited Partner/5% General Partner split of remaining profits.*

LFC, as the General Partner, is paid a quarterly Management Fee equal to 1/4 of 1% times an amount equal to the greater of the valuation of the First Tier Investment and /or the Partnership's unreturned investment cost for the First Tier Investment and an Administrative Fee of \$500 per month. This investment is excluded from clients' billable assets.

LFC Strata Energy Ltd. is a Texas Limited Partnership that invests in Limited Partnerships that, in turn, invest in oil and gas companies, oil and gas service companies, and other energy related companies. These First Tier Partnership investments may vary between securities and debt instruments. Currently, there is one investment:

KAFU Holdings L.P. is paid partnership administrative expenses.

LFC, as the General Partner of LFC Strata Energy Ltd., is paid a quarterly Management Fee equal to 1/4 of 1% times the total net assets of the Partnership and an Administrative Fee of \$500 per month. This investment is excluded from clients' billable assets.

LFC Summit Resources Ltd. The Partnership was organized to purchase interests in entities which: (i) provide structured debt financing in the energy sector; (ii) produce and sell producing oil and gas reserves; (iii) own royalty interests in producing oil and gas reserves; (iv) operate in infrastructure areas; (v) own and purchase natural resources such as coal, water, timber and

wind; and (vi) own securities of companies in energy or energy related areas. The Partnership may make investments on a short-term basis in marketable securities of entities in the energy sector. The General Partner of the underlying investments charges the following fees:

Five States Energy Capital:

- *Fees and Expenses: Management Fee of 2% per annum on unreturned capital, Syndication Fee of 2% of capital commitment;*
- *Distributions: 100% to Limited Partners until Return of Capital and 8% Preferred Return is achieved then an 80% Limited Partner/20% General Partner split of remaining profits.*

Kayne Anderson Fund IV:

- *Distributions from the Fund may be made at any time as determined by the General Partner. Once the investors in the Fund have received 100% of their capital contribution plus a compound annual rate of return of 8%, then Kayne Anderson will receive 20% of any remaining distributions; and,*
- *An annual Management Fee equal to 2% of the commitments during the commitment period and, thereafter, 1.5% of the sum of: (i) the lower of the cost or fair market value of investments made plus (ii) the total amount committed for investment by the Funds minus (iii) returns of capital.*

LFC, as the General Partner, is paid a quarterly Management Fee equal to 1/4 of 1% times an amount equal to the greater of the valuation of the First Tier Investment and /or the Partnership's unreturned investment cost for the First Tier Investment and an Administrative Fee of \$500 per month. This investment is excluded from clients' billable assets.

Western Investors II is a Texas Limited Partnership that holds, and otherwise deals with oil, gas, and related mineral properties and interests.

LFC may charge for expenses incurred in administering the Partnership. This investment is included in clients' billable assets.

### ***Private Equity and Other Investments***

LFC Assignment Fund Ltd. is a Texas Limited Partnership organized to: (i) provide construction loan equity for commercial real estate developers (the "Merchant Equity"), (ii) invest in high-income debt and equity-linked securities that include corporate bonds, mortgage backed and asset backed securities and various types of convertible securities in income producing stocks, (iii) provide single family home builder financing for the construction of lower priced homes (the "Mortgage Funds"), (iv) make investments in selected equipment leasing and commercial aircraft leasing (the "Equipment Leasing"), and (v) purchase part or all of certain existing and issued annuity contracts lottery awards and policies (the "Annuity Contracts"). The Partnership may invest directly or in other Limited Partnerships that participate in the investment strategies described above. If the Partnership invests in other Limited Partnerships with those investment criteria, those Limited Partnerships will be referred to as First Tier Partnerships. The General Partners of the First Tier Partnerships are paid as follows:

BHC Interim Funding II L.P.:

- *Management Fee of 1.5% of the Partners' capital commitment; and,*
- *20% of the profits after return of capital and 8% preferred return.*

Tax Liens:

- *0.5-3.5% of acquisition cost based on yield;*
- *Quarterly Fee of 50 basis points of the net asset value of the account for servicing and reporting; and,*
- *25% of the profits on liquidation at a premium.*

LFC, as the General Partner, receives a quarterly Management Fee in an amount equal to 1/4 of 1% times the value of the net assets of the Partnership. In addition, the General Partner will be paid an Administrative Fee of \$500 per month for all administrative services for non-annuity contract investments and \$500 per month for the first 25 annuity contracts that are administered. The fee for annuity contract administration will increase to \$1,000 per month if more than 25 annuity contracts and less than 50 annuity contracts are administered. This fee will increase to \$1,500 per month if there are more than 50 annuity contracts and less than 75 annuity contracts administered. This fee for annuity contract administration will be increased \$500 for each group of 25 annuity contracts over 75 annuity contracts. This investment is excluded from clients' billable assets.

LFC Delta Fund Ltd. is a Texas Limited Partnership that makes direct investments in selected companies seeking growth capital generally in the form of preferred stock or common stock and in some cases convertible debentures. The General Partner of the First Tier Partnerships receives the following fees:

Brazos:

- *20% of profits to the General Partner; and,*
- *Management Fee of 2% per annum on committed capital.*

Orbimed:

- *20% of profits to the General Partner after return of capital and 8% compounded preferred return; and,*
- *Management Fee of 2% of the aggregate capital commitments.*

Orbimed II:

- *20% of profits to the General Partner after return of capital and 8% compounded preferred return; and,*
- *Management Fee of 2.5% of committed capital.*

Celerity Sidecar L.L.C. no Fees are paid.

GKM Venture Partners L.P.:

- *Management Fee of 2.5% per annum on committed and unreturned capital; and,*
- *20% of profits.*

LFC Olympus:

The General Partner of the First Tier Partnerships receives the following payments:

- Facility Partnerships: *The General Partner of each Facility Partnership receives:*
  - *75% of profits after a 12% or 13% preferred return depending upon the project and a 20% look-back and return of partners' capital; and,*
  - *The fund manager pays a 4% Finder's Fee to brokers for the equity raised.*
- Delphis L.P.: *Delphis GP L.P., as General Partner, receives 50% of the profits after Limited Partner return of capital and a 20% special allocation.*

Mediphase Annex:

- 20% of profits to the General Partner;
- Management Fee of 2% per annum of the Fund's aggregate commitments.

Mediphase II:

- 20% of profits to the General Partner;
- Management Fee of 2% per annum of the Fund's aggregate commitments; and,
- Offering and organizational expenses incidental to startup, not to exceed \$300,000.

Trellis Partners II L.P.:

- 20% of profits to the General Partner; and,
- Management Fee of 2.5% of committed capital.

LFC, as the General Partner, receives a quarterly Management Fee equal to 1/4 of 1% times the total net assets of the Partnership and a monthly Administrative Fee of \$500. This investment is excluded from clients' billable assets. The quarter Management Fee is assessed on unaffiliated assets only. (LFC Olympus is currently the only affiliated investment.)

LFC Island Partners Ltd. is a Texas Limited Partnership that will purchase Limited Partnership interests in Island Global Yachting IV L.P. that will acquire, develop, and manage luxury marina and related facilities in targeted locations under an integrated brand strategy. The General Partner of the First Tier Partnerships receives the following fees:

Island Global Yachting IV L.P.:

- *Distribution Priority:*
  - 95% to Limited Partners and 5% to General Partner until return of Limited Partner capital and an 8% compounded annual return;
  - Next 70% to the Limited Partners and 30% to the general until the Limited Partners receive either/or a 20% simple annual return or 200% of aggregate capital contributions; and, thereafter, 50% / 50%.
- *Fees and Expenses:*
  - All out-of-pocket expenses including, without limitation, expenses incurred in conducting due diligence, negotiating, structuring and acquiring or disposing of investments and travel expenses including direct out-of-pocket costs of private aircraft usage, excluding any capital expenditures associated therewith up to the travel expense cap (\$350,000 per year);
  - All of the applicable share of direct administrative, operating, capital or other expense including without limitation, employee compensation and benefits, rent, insurance, copying, telephone, utility, legal, accounting, acquiring or leasing furniture, fixtures or equipment, employee compensation, covered office expenses;
  - Management Fees: annual Asset Management Fee of 1.25% of the gross capitalization of IGY but not less than \$1 million;
  - Acquisition and Finance Fees: 1% of purchase price;
  - Disposition Fees: 1% of the gross proceeds; and,
  - Structuring Fee: 1.25% of the capital commitments of the Limited Partners.



LFC, as the General Partner, is paid a quarterly Management Fee equal to 1/4 of 1% times the total net assets of the Partnership, and a monthly Administrative Fee of \$500. This investment is excluded from clients' billable assets.

LFC Novus Ltd. is a Texas Limited Partnership that will invest in a diversified portfolio of private equity investments. The partnership will make investments in both managed private equity funds and directly with companies seeking capital. These investments will typically be in the form of preferred or common stock and in some cases convertible debentures. Private equity funds are typically categorized into one of three main categories: (i) early or late-stage venture; (ii) growth capital; or (iii) buyout/corporate restructurings. The private equity funds charge the following fees:

Bravo Equity Partners II L.P.:

- 2% Management Fee on committed capital; and,
- 20% Incentive Fee after return of Limited Partners' capital and 8% preferred return.

Carlyle Infrastructure Partners L.P.:

- 2% Management Fee on committed capital; and,
- 20% Incentive Fee after return of Limited Partners' capital and 8% preferred return.

Island Global Yachting IV L.P.:

- Distribution Priority:
  - 95% to Limited Partners and 5% to General Partner until return of Limited Partner capital and an 8% compounded annual return;
  - Next 70% to the Limited Partners and 30% to the General Partner until the Limited Partners receive either/or a 20% simple annual return or 200% of aggregate capital contributions; and,
  - Thereafter, 50% / 50%.
- Fees and Expenses:
  - All out-of-pocket expenses including, without limitation, expenses incurred in conducting due diligence, negotiating, structuring and acquiring or disposing of investments and travel expenses including direct out-of-pocket costs of private aircraft usage, excluding any capital expenditures associated therewith up to the travel expense cap (\$350,000 per year);
  - All of the applicable share of direct administrative, operating, capital or other expense including, without limitation, employee compensation and benefits, rent, insurance, copying, telephone, utility, legal, accounting, acquiring or leasing furniture, fixtures or equipment;
  - Employee compensation;
  - Covered office expenses;
  - Management Fees: annual Asset Management Fee of 1.25% of the gross capitalization of IGY but not less than \$1 million;
  - Acquisition and Finance Fees: 1% of purchase price;
  - Disposition Fees: 1% of the gross proceeds; and,
  - Structuring Fee: 1.25% of the capital commitments of the Limited Partners.

Kayne Anderson Private Investors II (QP) L.P.:

- 2% Management Fee on committed capital; and,
- 20% Incentive Fee after return of Limited Partners' capital and 8% preferred return.

Permal Private Equity Opportunities III L.P.:

- *1.5% Management Fee on committed capital through the fifth anniversary of the initial funding date; thereafter declining 7.5% per year through year eight; thereafter declining 25% per year through year ten; following which the Fee will equal 1.00% of the Net Asset Value; and,*
  - *10% Incentive Fee after return of Limited Partner's capital and 8% preferred return.*
- River Logic, Inc.: Common stock ownership. No Fees involved.

Teakwood Capital L.P.:

- *2.5% Management Fee on committed capital; and,*
- *20% Incentive Fee after return of Limited Partner's capital and 7% preferred return.*

LFC, as the General Partner, is paid a quarterly Management Fee equal to 1/4 of 1% times the total net assets of the Partnership, and a monthly Administrative Fee of \$500. This investment is excluded from clients' billable assets.

LFC Olympus Ltd. is a Texas Limited Partnership organized to purchase partnership interests in entities that focus on investments in the healthcare industry with an emphasis upon ambulatory surgery centers, limited stay hospitals, imaging centers, medical office buildings and/or specialty hospitals. The entities may participate in operations or purchase real estate related to such healthcare activities or focus both on operations and on related real estate purchases. The General Partner of the First Tier Partnerships receives the following payments:

Delphis L.P.:

- *Delphis GP L.P., as General Partner, receives 50% of the profits after Limited Partner return of capital and a 20% special allocation; and,*
- *The Fund Manager pays a Finder's Fee to brokers for equity raised.*

Facility Partnerships: The General Partner of each facility partnership receives:

- *75% of profits after a 12% or 13% preferred return depending upon the project and a 20% look-back and return of partners' capital; and,*
- *The Fund Manager pays a 4% Finder's Fee to brokers for the equity raised.*

LFC, as the General Partner, receives a quarterly Management Fee equal to 1/4 of 1% times the total net assets of the Partnership, and a monthly Administrative Fee of \$500. This investment is excluded from clients' billable assets.

LFC Omega Ltd. is a Texas Limited Partnership that retains investment managers who acquire bank loans, corporate debt, and/or equity of financially stressed or distressed companies. LFC Omega is invested in the following funds: B IV Capital Partners L.P., Highland Valhalla CLO, Matlin Patterson Global Opportunities Partners L.P., Morris Special Situations Fund, and Oaktree Capital Management Fund IVb, Fund V and Fund VI. The General Partner of each of these entities charges the following fees:

B IV Capital Partners L.P. charges a 1.5% Management Fee with an Incentive Fee of 20% after a preferred return of 8%.

Highland Valhalla CLO is paid a Senior Management Fee of 0.3% and a subordinated Management Fee of 0.20%.

Matlin Patterson Global Opportunities Partners L.P. is paid a 1.75% Management Fee and 20% of profits.

Morris Special Situations Fund is paid 2.25% of capital contributions and committed capital until July 31, 2008, thereafter, Morris is paid 2.25% on capital less any distributions resulting from the sale of portfolio companies and 20% of profits after 4% preferred return.

Oaktree Capital Management Fund IVb is paid a 1.00% Management Fee and 20% of profits after reaching an 8% preferred return.

Oaktree Capital Management Fund V is paid a 1.25% Management Fee and 20% of profits after an 8% preferred return.

Oaktree Capital Management Fund VI is paid a 1.25% Management Fee and 20% of profits after an 8% preferred return.

LFC, as a General Partner, receives annually a 1% Investment Management Fee and a \$500 monthly Administrative Fee. This investment is excluded from clients' billable assets.

LFC Omni Ltd. is a Texas Limited Partnership organized in January 2003 by the General Partner. LFC Omni Ltd. Fund has been organized to invest in First Tier Investments that: (i) purchase at a discount secured and unsecured loans and debt instruments from commercial banks, insurance companies, investment banks, and companies that make small loans and other entities; and (ii) purchase securities, bonds and other financial instruments of companies that are stressed or distressed due to operating difficulties. Currently, the LFC Omni Fund is invested in LFC Capital Partners L.C., Litespeed Partners, and Troob Distressed Series Fund L.P. The General Partner of each of these entities charges the following fees:

LC Capital Partners L.C. is paid an annual 1.5% Management Fee with 20% of net profits.

Litespeed Partners is paid an annual 1.5% Management Fee along with 20% of the net profits.

Troob Distressed Series Fund L.P. is paid a Management Fee of 1.5% and an Incentive Fee of 20%.

LFC Omni has a side-pocket containing three investments:

Morris Special Situations Fund is paid 2.25% of capital contributions and committed capital until July 31, 2008, thereafter, Morris is paid 2.25% on capital less any distributions resulting from the sale of portfolio companies and 20% of profits after 4% preferred return.

Woodside Capital Fund IV charges an annual Management Fee during the commitment period equal to the greater of: (i) 1% of fund's total equity and debt commitments; and (ii) 2% of total equity commitments, and after the commitment period equal to 1.5% of total assets under management valued at cost; an additional fee of 25% of profits after return of capital and 6% compounded preferred return.

LFC, as a General Partner, receives annually a 1% Investment Management Fee and a \$500 monthly Administrative Fee. This investment is excluded from clients' billable assets.

LFC Orion Ltd. is a Texas Limited Partnership organized to invest in Limited Partnerships that: (i) make unsecured mezzanine loans; (ii) make loans in industrial and manufacturing businesses and to a lesser extent service companies; (iii) provide junior debt financing and growth capital for transactions involving middle market companies including leveraged acquisitions, corporate financing and re-capitalizations; (iv) invest internationally in severely discounted securities and obligations of financially distressed companies with the objective of obtaining corporate control; (v) invest in debt and debt related equity securities of small and middle capitalization companies in distressed or other special situations; and (vi) invest in equipment leases. The General Partner of each of these entities charges the following fees:

BHC Interim Funding II L.P.:

- *Management Fee of 1.5% per annum of the partners' capital commitment; and,*
- *20% of the profits after return of capital and 8% preferred return.*

BHC Interim Funding III:

- *Management Fee of 1.5% per annum; and,*
- *20% of profits after an 8% preferred return.*

Praesidian Capital:

- *Management Fee of 2% per annum on total fund assets; and,*
- *20% of the profits after return of capital and 8% preferred return.*

Praesidian Capital Fund II:

- *Management Fee of 2% per annum on total fund assets; and,*
- *20% of the profits after return of capital and 8% preferred return.*

Valstone Opportunity Fund IIb:

- *Management Fee of 2.0% on total commitments during the investment period. After the investment period, the 2.0% fee is calculated on the lesser of reported value and total commitments; and,*
- *20% of the profits after return of capital and a preferred return of 8%.*

WCP Real Estate Strategies Fund:

- *Management Fee of 1.5% per annum;*
- *20% of profits.*

Woodside Funding Partners I L.L.C.:

- *The higher of 1.25% multiplied by the Partnership's combined capital or 2.25% multiplied by the aggregate commitments of the partners;*
- *Organizational expenses not to exceed \$50,000 and all accounting, audit fees; and,*
- *20% of profits after return of capital and a preferred return of 8%.*

LFC, as the General Partner of LFC Orion Ltd., is paid a quarterly Management Fee equal to 1/4 of 1% times the total net assets of the Partnership and an Administrative Fee of \$500 per month. This investment is excluded from clients' billable assets.

LFC Quik-Way Shell DFW Ltd. is a Texas Limited Partnership organized to purchase a Class A Limited Partnership Interest in Quik-Way Retail Associates Holdings II, Ltd. (First Tier Investments). The First Tier Investment holds 22.95% of the outstanding membership interests in Empire Petroleum Partners, LLC ("EPP"). EPP is a multi-regional fuel distributor which serves over 530 customers across 13 Mid-Atlantic, Southeastern and Midwestern states. In addition to its large wholesale business, EPP also controls the real estate interests in 170 convenience stores and gas stations that span from Maryland to Texas.



LFC, as the General Partner, is paid a quarterly Management Fee equal to 1/4 of 1% times the total net asset of the Partnership, and a monthly Administrative Fee of \$500. This investment is excluded from clients' billable assets.

LFC Structured Settlement Fund Ltd. is a Texas Limited Partnership. The Partnership has been organized to purchase part or all of certain existing and issued Annuity Contracts lottery awards and policies ("Annuity Contracts"). The Partnership may invest directly or in other entities which also purchases Annuity Contracts.

LFC, the General Partner, is paid a quarterly Management Fee equal to 1/4 of 1% times the value of the net assets of the Partnership and is paid an Administrative Fee of \$2,500 per quarter. This investment is excluded from clients' billable assets.

LFC Vector Fund Ltd. is a Texas Limited Partnership invested in EGS Private Healthcare Partnership, Latinvest Strategic Investment Fund L.P., Retail and Restaurant Growth Capital L.P., and selected direct company investments. These selected First Tier Partnerships invest capital in companies requiring growth or expansion capital. The General Partners of these investment partnerships are active in the companies in which an investment is made by participation with management. The First Tier Partnerships' General Partners charge the following fees:

Retail and Restaurant Growth Capital L.P.:

- *Management compensation of 2.5% based on three times the Limited Partners' committed capital; and,*
- *General Partner profits of 19% after return of the partner equity.*

LFC, as the General Partner, is paid a quarterly Management Fee equal to 1/4 of 1% times the total net assets of the Partnership, and a monthly Administrative Fee of \$500. This investment is excluded from clients' billable assets.

## ***LIQUID ASSETS***

LFC Alpha Ltd. is a Texas Limited Partnership that will invest in First Tier Limited Partnerships that: (i) purchase, at discounts, secured and unsecured loans and debt instruments from both private and public sellers ("Distressed Debt Loans"); (ii) purchase securities, bonds and other financial instruments of companies that are stressed or distressed due to operating difficulties, capital structure or the current market or economic environment ("Distressed Securities"); (iii) purchase Distressed Loans and Distressed Securities including sovereign debt internationally; (iv) purchase interests in collateralized debt obligations ("CDOs"); (v) purchase credit-linked derivatives; and (vi) invest in real estate collateralized loans. Currently, the Fund invests in Avenue Investments L.P., Greylock Global Opportunity Fund LP., Capital Management, Contrarian Capital Fund I L.P, Elliott Associates L.P., LC Capital Partners L.P., Litespeed Partners L.P., Matlin Patterson Distressed Opportunity Fund L.P., OCM Value Opportunities Fund L.P, Solus L.L.C., and TCM Distressed Series Fund L.P.

Avenue Investments L.P. The Fund will pay to the Investment Manager a Management Fee quarterly, in advance, equal to the amount of 1.5% per annum of the Funds total capital. In addition to the Management Fee, the Investment Manager will receive 20% of the net profits earned on the total of all capital accounts with no high water mark.

Contrarian Capital Fund I L.P. is paid a 1.5% Management Fee plus 20% of net profits.

Elliott Associates L.P. is paid a 2.0% Management Fee, a 1.75% Fee on contributions and withdrawals, and a 20% Incentive Fee.

LC Capital Partners L.P. The Investment Manager will receive a monthly Management Fee (the "Management Fee") calculated at the annual rate of 1.5% of each Limited Partner's capital account. For each fiscal year, there will be reallocated to the General Partner from the capital account of each Limited Partner, 20% of each Limited Partner's share of net profits, if any, subject to a loss carry forward provision.

Litespeed Partners L.P. is paid an annual 2% Management Fee along with 20% of the net profits.

Matlin Patterson Distressed Opportunity Fund L.P. is paid a 2% Management Fee plus 20% of net profits.

OCM Value Opportunities Fund L.P. is paid a 2% Management Fee plus 20% of net profits.

Solus L.L.C. is paid an annual 2.0% Management Fee along with a 20% performance Fee. The Fund does not have a stated hurdle rate, but does have a high water mark.

TCM Distressed Series Fund L.P. is paid a Management Fee of 1.5% and an Incentive Fee of 20%.

Greylock Global Opportunity Fund LP Is paid a 2% per annum management fee and 20% performance fee in excess of 90-day T-Bill.

LFC Alpha has one side-pocketed investment in Highland Crusader L.P. This manager is paid a 2% Management Fee plus 25% of net appreciation of a Limited Partners account.

LFC, as the General Partner, receives a 1% annual Investment Management Fee based on the value of the securities held less liabilities and a monthly Administrative Fee of \$500. This investment is excluded from clients' billable assets.

LFC Foreign Fund Ltd. is a Texas Limited Partnership that invests in investment funds and other investment entities that invest or trade primarily in the securities of non-U.S. companies.

Currently, LFC Foreign Fund Ltd. is invested in the following fund and is in the process of closing: Moon Capital Global. This entity, charges the following fees:

Moon Capital Global charges 2% and 20% of net profits.

LFC, as the General Partner, receives an annual 1% Investment Management Fee and a monthly Administrative Fee of \$300. This investment is excluded from clients' billable assets.

LFC Global Hedge Fund Ltd. is a Texas Limited Partnership that is invested in LFC Foreign Fund Ltd., its last remaining asset. The fund is in process of closing, and is not available for new investment. The Partnership charge Management Fees of:

LFC Foreign Fund Ltd. *charges a 1% Management Fee.*

LFC, as the General Partner, receives a 1% an annual Investment Management Fee based on the value of the securities held less liabilities and a monthly Administrative Fee of \$500 on unaffiliated assets only. LFC Foreign is an affiliated investment. This investment is excluded from clients' billable assets.

LFC 1990 Hedge Fund Ltd. is a Texas Limited Partnership that invests in investment partnerships or other investment vehicles commonly known as "hedge funds." Currently, LFC 1990 Hedge Fund is invested in the following funds: Bonanza Liquidating Trust, Corsair Capital Partners, Forester Fund, FPA Hawkeye Fund, LFC Special Opportunity Fund, Marketfield Fund, Millgate Partners, Raptor Global Portfolio Liquidating Trust, SAB Capital Partners, and Value Partners. Each of these entities charges the following fees:

Bonanza Liquidating Trust *bears the cost of the liquidation of remaining assets.*

Forester Fund *charges 1.28% net expense on assets and a 12b-1 Fee of .25%*

FPA Hawkeye Fund *charges a 1% annual Management Fee and 20% of net profits.*

LFC Special Opportunity Fund *charges no fees.*

Marketfield Fund *charges 2.16% net expense on assets.*

Raptor Global Portfolio Liquidating Trust *bears the cost of trustees' liquidation but no fees from Raptor Capital Management.*

SAB Capital Partners and Millgate Partners *charges a 1.5% Management Fee and 20% of net profits.*

Value Partners *charges a 1% annual Management Fee and 20% of net profits but the 20% net profit participation only begins after a 10% hurdle rate is achieved.*

Corsair Capital Partners 100 *charges a 1.25% annual Management Fee and 20% of net profits.*

LFC, as the General Partner, receives an annual 1% Investment Management Fee and administrative costs of the Partnership. This investment is excluded from clients' billable assets.

LFC Special Opportunity Fund Ltd. is a Texas Limited Partnership and is closed to new investment. Currently, the Fund (except for the side pocket) is wholly owned by LFC 1990 Hedge Fund Ltd. and bears no Management Fee or expenses. Current investments are Davidson Kempner Partners. Those investment managers charge management fees of:

Davidson Kempner Partners *charges a 1% Management Fee and 20% of profits.*

LFC Special Opportunity Fund Ltd. has a side pocketed investment that holds remaining assets in liquidation.

GPS New Equity *charges the costs of finalizing the administration of the partnership liquidation.*

Oaktree Japan Opportunities *bears the cost of liquidation of the remaining assets.*

Steel Partners II Liquidating Trust is charged the costs and liabilities associated with the trustee's management and liquidation of remaining assets.

LFC, as the General Partner, receives a 1% annual Investment Management Fee based on the value of the securities held less liabilities and a monthly Administrative Fee of \$500. This investment is excluded from clients' billable assets.

LFC Strategic Performance Fund Ltd. is a Texas Limited Partnership and is closed to new investment and is returning assets to investors as those assets become liquid. It has investments in GPS High Yield Equities and Valstone Opportunity IIIb. The Fees of these Partnerships are as follows:

GPS High Yield Equities charges the costs of finalizing the administration of the partnership liquidation.

Valstone Opportunity IIIb charges 2% Management Fee, and 20% of realized profits.

LFC, as the General Partner, receives a 1% annual Investment Management Fee based on the value of the securities held less liabilities and a monthly Administrative Fee of \$500. This investment is excluded from clients' billable assets.

LFC Target Performance Fund Ltd. is a Texas Limited Partnership that currently invests in Galileo Capital Partners and Valstone Opportunity IIb. This partnership is closed to new investment, and is returning assets to investors as those assets become liquid. The investments charge Management Fees of:

Galileo Capital Partners charges a 1% Management Fee plus expenses, and 20% of profits.

Valstone Opportunity IIb charges 2% and 20% of realized profits.

LFC, as the General Partner, receives a 1% annual Investment Management Fee based on the value of the securities held less liabilities and a monthly Administrative Fee of \$500. This investment is excluded from clients' billable assets.

### ***Potential Conflicts of Interest***

*Investments in LFC partnerships that relate to client investments or ownership*

Many LFC clients have significant and diverse business interests. LFC may invest partnership assets in companies or entities where our clients hold ownership rights. A related and common occurrence of this would be if a client owned ABC stock, and LFC recommended ABC stock to other clients. Every investment is made on the merits of the investment opportunity, however if a client holds an ownership interest, it may appear that LFC is investing partnership assets to benefit that client, which would be a conflict of interest. Lee Financial has specific procedures in place to address this potential by carefully scrutinizing and monitoring situations if this type of scenario comes up, and additional compliance oversight is utilized to ensure that no one client is favored by the others. If it is determined that a true conflict of interest exists, LFC will either not participate in the investment, or will notify clients involved of the conflict in writing.



### *Legal Representation*

Our corporate general counsel is Curtis Swinson, an attorney with Malouf Lynch Jackson and Swinson PC. Mr. Swinson also prepares the private placement memorandums required for each partnership where LFC is the General Partner. Lee Financial clients occasionally request an attorney to assist them with legal issues, and Lee Financial may recommend several different attorneys to clients, including Mr. Swinson for legal assistance on client specific matters. These matters may regard contracts or business needs, etc. that are unrelated to our investment management practice. We do not feel this is a conflict of interest, as there is no incentive to recommend him or any other attorney; however, clients should be advised that we also have a business relationship with Mr. Swinson.

### *Board Seats*

Dana Pingenot is a member of Board of Directors for National Advisor Holdings (“NAH”) and National Advisors Trust Company (“NATC”) as of April 2012. NATC is the subsidiary of NAH. NATC provides custodial, brokerage and trust services to clients of registered investment advisory firms across the United States. Lee Financial may and does recommend NATC to some clients for custody, brokerage or trustee services when it is determined that NATC may be appropriate. Our clients will be able to make their own determination as to whether to use custodial, brokerage or trust services provided by NATC and may be able to choose to use another custodian and still retain Lee Financial to provide investment advice.

Richard R. Lee, Jr. serves on the Board of Directors of Wynne/Jackson Inc., and TBI Holdings, Inc. Wynne/Jackson is a real estate development firm located in Dallas, Texas and was established in the late 1970’s. One of LFC’s clients is an executive officer and shareholder of Wynn/Jackson. Mr. Lee is compensated for his service on their Board of Directors. TBI Holdings is incorporated in the State of Texas with its primary office located in Plano, Texas. TBI Holdings was established in 2001 as a holding company for physician investments, primarily Plano Presbyterian and the Center for Diagnostic and Surgery (“PPCDS”), and provides management services to PPCDS. Some clients of LFC may be owners or employed by TBI Holdings. Lee Financial is compensated for Mr. Lee’s services on their Board of Directors. Additionally, Mr. Lee is a company manager for Practis Medical Management L.L.C. and is reimbursed for his expenses incurred in the performance of his duties.

William A. Luckey II serves on the Board of Directors of Jet Linx Management Company L.L.C. that is a private company in which a LFC client owns an interest.

### *LFC Management’s Ownership in Entities*

Richard R. Lee Jr. is an investor in Power Ventures III L.L.C., Power Ventures VI L.L.C., Power Ventures VII L.L.C., Power Ventures VIII L.L.C., Battery Bridge Lenders C-7, L.L.C. Zpower, Medical Venture Ltd, Mercury Fund VIII Ltd, and River Logic, Inc.

Richard R. Lee, Jr. (80% interest), Mary T. Quinn (10% interest), and Dana L. Pingenot (10% interest) are the three shareholders of DTL Investments, Inc. DTL is the General Partner of LQP



("Lee, Quinn, Pingenot") Investments, Ltd. LQP is a Texas Limited Partnership that was formed for the purpose of investing. LQP currently has an investment in Hall-Houston Exploration Fund III, Ltd., LFC Alpha, Ltd., LFC Energy Resources, Ltd., LFC Island Partners, Ltd., and LFC Quik Way Shell DFW, Ltd.

Some of our employees are invested in one or more of our partnerships including:

Hall-Houston Exploration Fund III, Ltd.

LFC Alpha (Highland Crusader) Side Pocket

LFC Alpha, Ltd.

LFC Assignment Fund, Ltd.

LFC Borders, Ltd.

LFC Century, Ltd.

LFC Defined Payment Fund, Ltd.

LFC Delta Fund, Ltd.

LFC Energy Resources, Ltd.

LFC Global Hedge, Ltd.

LFC Horizon, Ltd.

LFC Island Partners, Ltd.

LFC Matrix Resources, Ltd.

LFC Olympus E, Ltd.

LFC Omni – Side Pocket

LFC Omni, Ltd.

LFC Regions, Ltd.

LFC Orion, Ltd.

LFC Province, Ltd.

LFC Regions, Ltd.

LFC Special Opportunities Fund, Ltd.

LFC Stanford, Ltd.

LFC Structured Settlement Fund, Ltd.

LFC Terra, Ltd.

LFC Vector Fund, Ltd.

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

### *Code of Ethics*

We owe you a fiduciary duty in conducting your affairs to avoid:

- Serving our own personal interests ahead of yours;
- Allowing employees to take inappropriate advantage of their position with the firm; and,
- Any actual or potential conflicts of interest or any abuse of our position of trust and responsibility.

Our name and reputation is a direct reflection of our employees' conduct. The purpose of our Code of Ethics is to avoid activities that may lead to or give the appearance of conflicts of interest, insider trading and other forms of prohibited or unethical business conduct. According to Section 206 of the Advisers Act, we are prohibited from engaging in fraudulent, deceptive or manipulative conduct. We are subject to the following fiduciary obligations during our relationship with you:

- The duty to provide a reasonable and independent basis for our investment advice;
- The duty to obtain best execution whenever we direct your brokerage transactions;
- The duty to ensure our investment advice meets your individual objectives, needs and circumstances; and,
- A duty to be loyal to you, and act solely in your best interest.

We require that our employees possess certain qualifications of experience, education, intelligence, judgment, and are expected to demonstrate the highest standards of moral and ethical conduct. Our Code is distributed to each employee at the time of hire and annually thereafter. We supplement our Code with annual training and continuous monitoring of employees' activities.

#### *Participation or Interest in Client Transactions*

We may recommend that you buy or sell securities or investment products in which our firm or our employees have some financial interest. This may create a potential conflict of interest with you. To avoid conflicts of interest, we may not trade concurrently, or in conflict with, your investment interests. The only securities our employees are allowed to trade simultaneously with you are mutual funds.

Our employees must have prior approval from our CCO before they can invest alongside you in partnerships. Prior approval is based, in part, on whether the partnership is illiquid or liquid. For illiquid partnerships, shares are limited so you receive first priority to invest. After you are given first priority, employees may invest alongside your partnership interests. For liquid partnerships, shares are unlimited so employees may invest alongside your partnership interests.

#### *Pre-clearance for Restricted Transactions*

Our Investment Strategy Team creates a "Restricted and Watch List" of securities, private placements, Real Estate Investment Trusts (REITs), Initial Public Offerings (IPOs) of securities, stocks and bonds that are under consideration for purchase or sell in clients' portfolios. It is employees' responsibility to not place any purchase or sell orders from this list without prior approval from our CCO. Any approved transaction must be completed by close of the same business day. It is prohibited to seek approval for a security transaction after the transaction has been made on a restricted security.

Our CCO monitors our employees' transactions to avoid transactions that are in conflict with our Code of Ethics. This includes front running a trade. An example of front running is, if an employee personally buys a stock before LFC purchases that stock for our clients, the employee may gain from an increase in the value of the stock when the clients purchase it.

### *Personal Trading - Reporting Requirements*

Rule 204-2(a)(12) of the Advisers Act requires employees to report their personal securities transactions within thirty (30) calendar days following the end of each quarter. In addition, employees are required to provide initial and annual holdings reports. Employees are required to request their broker dealer or custodian send duplicate trade confirmations of all securities transactions to our CCO. If the broker-dealer does not send trade confirmations by mail (such as internet based broker-dealers), the employee is required to provide copies of trade confirmations of reportable transactions from their accounts.

Your interests are placed ahead of our employees' interests. If we determine that one of our employee's transactions is likely to have a material impact on market prices, your transactions are completed before any LFC employee transaction will be allowed. Employees are allowed to trade in open-end mutual funds simultaneously with you, since transactions in mutual funds are not competitively priced.

In addition, we may not purchase from you nor sell any securities to you. We are prohibited from personally holding your funds or securities or acting in any capacity as a custodian for your accounts. A Custodian is a bank, trust company or other organization that holds and safeguards individuals' investment assets for them. We are prohibited from borrowing money or securities or lending money to you.

Outside employment, directorships, or other business activities by employees are allowed as long as they do not interfere with, are material to, or compete with the company or their employment activities at LFC. All our employees are required to disclose to LFC if they are involved in any outside employment activities and interests. LFC employees sign a confidentiality agreement with the firm at the time of employment, and also read and sign the code of ethics each year.

Any LFC employee that violates our Code of Ethics and other policies and procedures will be subject to the firm's disciplinary measures including possible termination of employment.

Please contact our Chief Compliance Officer, Kirsten Mires, for a copy of our Code of Ethics if you want additional details.

## **Item 12 - Brokerage Practices**

### *Selecting Brokers*

LFC is not affiliated with any broker-dealer, nor do we have economic relationships with any broker-dealer or custodian. As a fiduciary, LFC acts in client's best interest in negotiating favorable terms at particular broker-dealers or custodians. We may recommend that you establish brokerage accounts with a specific broker-dealer or custodian based, in part, on the benefit to you, other clients, and LFC. It is your ultimate decision where to open a brokerage account or custody your assets. Broker-dealers or other custodians charge transaction-related fees

and/or commissions for security transactions executed in accounts custodied with them. We cannot guarantee that all fees will be the lowest available in all areas, as we negotiate for the over-all services. Therefore, individual clients may not benefit equally from the fees negotiated at the same custodian. This may create a conflict of interest in that we may recommend a broker-dealer or custodian to you that we have negotiated with that may not offer you, as an individual, the best fee rates. LFC strives to control this potential conflict by utilizing several custodians geared for specific types of accounts for the best service and rates when possible. For example, some custodians are recommended as the best option for IRA or other retirement accounts, but may not hold alternative assets where another custodian will.

### *Commission Charges*

Some broker-dealers provide us with access to their institutional trading and operating services, which are typically not available to retail investors. These services are generally provided to independent investment advisers as long as the broker-dealer or custodian holds a certain amount of total client assets. Benefits of these services may include research, negotiated brokerage trading costs, custody, access to wide variety of mutual funds, and other investments that would require a significantly higher minimum investment amount. Many of these services may be used to service all or a substantial number of LFC's client accounts including accounts not maintained at a particular broker-dealer or custodian. Some of those other products and services assist us in managing and administering accounts such as:

- Trade confirmations
- Account statements
- Trade execution
- Allocation of aggregated trade orders for multiple client accounts
- Pricing information
- Market data
- Facilitating the payment of our fees from your accounts
- Back-office support assistance
- Recordkeeping
- Client reporting

Other products and services may be available that benefit our firm but may not benefit your accounts such as regulatory compliance, legal, business consulting, access to publications and conferences, information technology, and marketing. In addition, a broker-dealer or custodian may make available, arrange, waive, discount, and/or pay for those types of service for LFC by independent third parties. The services we receive are not material to our business, and do not influence our selection of which broker-dealers to recommend to clients. However the existence of those benefits creates an appearance of a potential incentive in recommending certain custodians since we do not have to pay for those additional services. We do not receive client referrals from broker-dealers or custodians.

### *Trading Methods*

We may aggregate orders for the purchase or sale of securities when executing trades across

multiple client accounts. When we execute trades for multiple client accounts at the same time, we want to ensure the best price is given to all of our clients as equally as possible. During certain times we may not be able or want to aggregate trades when we have an opportunity to do so. For example due to the size of an order or the liquidity in a particular security, we will execute some orders over a period of time. In this case, the price may increase or decrease during the time it takes to complete the entire order. If all trades are executed in one day, the trades executed at a particular custodian are compiled to an average price and allocated to clients. This ensures that some clients do not have a trade price advantage over other clients. If we execute the trade over several days, our trading system will randomly select the accounts that are filled first. This ensures some clients do not have an unfair advantage over other clients.

You may pay additional commissions on Over-the-Counter (OTC) Trades, or trades in foreign markets. OTC Trades are marketable securities that trade “by appointment” only. These are not traded on an open exchange and cannot be readily purchased and sold. To make an OTC trade, the trader must first contact a “dealer” who creates a market for the trade(s) and charges a fee for connecting buyers and sellers. OTCs are usually needed when the market for a security is not well developed or there are not adequate. This typically occurs with securities that have very light volume or a small supply.

#### *Client Directed Trading and Directed Brokerage*

Clients may direct us to place unsolicited trades for them in LFC managed accounts by specific written or verbal request per trade. Unsolicited trades are trades in securities that we did not recommend or research. We do this service for the convenience of clients, but do not recommend it, or offer it as a routine part of our services.

Some clients request directed brokerage for trades affected in their accounts. Directed brokerage is whenever a client requests trades being handled through a specific broker. Those clients may be charged higher commissions and or fees than the negotiated fees and discounted commissions LFC may have established with other broker-dealers or custodians, may limit a client’s ability to participate in block trading, and/or limit LFC’s ability to achieve best execution.

### **Item 13 - Review of Accounts**

Each investment advisory account is normally reviewed and analyzed by our Investment Strategists on a quarterly basis. Your accounts are analyzed to determine if your asset allocation is balanced and managed according to your objectives. Investment selections are reviewed with your entire portfolio's objectives in mind. In addition, portfolio performance, risk profile, potential tax effects and cash flows are analyzed. Typical events that may cause us to re-analyze your financial plan more often than a quarterly basis include:

- Death of a spouse, parent, child or other immediate family member
- Marriage or divorce
- Birth or adoption of a child
- Disability
- Purchase or sale of a business



- Changes in employment status

Accounts are reviewed within the context of “The Prudent Man Rule” and “The Prudent Investor Rule”. The Prudent Man Rule requires an advisor to act with caution, discretion, loyalty, and care when reviewing a financial plan. However, this Rule does not restrict the investment of assets. The Prudent Investor Rule applies this standard of responsibility to the entire portfolio rather than to just individual investments. It also identifies the central trade-off between risk and return in a portfolio.

Our client’s are sent an updated portfolio statement quarterly. We send investment management reports including a portfolio appraisal, cash ledger and performance history for each quarter and the year. Portfolio information is also available on our website. Clients will receive a quarterly invoice on management fees are deducted from their custodial accounts. We require custodians to send statements to us showing portfolio assets priced as of quarter-end and a full history of transactions that occurred during the period including the deduction of management fees.

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

We have numerous sources of client referrals including our existing client base, collaborative partners, business associates, other advisory firms, and friends and family members. We do not offer or accept any form of compensation for referrals of potential clients to our firm.

#### **Item 15 - Custody**

We request clients utilize independent qualified custodians or broker-dealers to hold your assets (cash, securities). An independent custodian is a financial institution not affiliated with LFC that has the legal responsibility for safeguarding your securities. We use the following custodians:

- Charles Schwab
- National Advisors Trust Company
- Fidelity
- Sterling Trust Company
- Pershing

You may have an account with one or more of these (or other) custodians. Your custodian(s) will send you a monthly or quarterly statement. We will send you statements on a quarterly basis that may contain some of the same information on your custodians’ statements.

Lee Financial Corporation urges its clients to review and compare account statements received from their independent qualified custodians to those provided by Lee Financial for accuracy. The comparison of non-registered assets listed on the statements will depend upon the independent qualified custodian’s determination of whether they can hold those assets. Non-registered assets would include partnerships such as real estate, private equity, or hedge funds and would include those where Lee Financial serves as the General Partner. Non-registered

entities where Lee Financial serves as the General Partner will send audited financial statements upon completion each year. Custodians may charge additional fees for non-registered assets.

#### *National Advisors Trust Company (NATC)*

Lee Financial Corporation (LFC) is a shareholder of National Advisor Holdings, Inc. ("NAH"), a Delaware corporation organized in August of 1999. LFC holds less than 1.0%, in the aggregate, of the outstanding stock of NAH. NAH has chartered an institution through the Office of Thrift Supervision known as National Advisers Trust Company ("NATC"). NATC provides custody, brokerage, banking and trust services to clients of registered investment advisory firms, such as LFC, across the United States. Dana Pingenot (President LFC) is a member of the NATC Board of Directors and Trust Committee.

Because LFC has an interest in NAH, and therefore indirectly has an interest in NATC, a small amount of the fees earned by NATC will accrue to the benefit of LFC and thus create a conflict of interest. The LFC ownership percentage is not a material amount to LFC and to NATC business economically. Both LFC and NATC entities are completely independent operationally from each other. LFC may and does recommend NATC to certain clients for custody, trustee and brokerage when LFC determines NATC's services may be appropriate for those clients. Our clients will be able to make their own determination as to whether to use custodial, brokerage or trust services provided by NATC and may choose to use another custodian and still retain Lee Financial to provide the investment advice.

### **Item 16 - Investment Discretion**

You may give us discretionary authority to trade securities on your behalf by signing a Power of Attorney. Trading discretion means that LFC will place trades on your behalf in your accounts at will and without additional permission granted by you. Trading discretion is used to assist in a timely portfolio management process between when investment decisions are made and are able to be executed. You may place restrictions on your accounts to limit this authority by restricting particular securities, types of securities by industry or whole asset classes (e.g. ABC stock, energy stocks, all stocks). Restrictions of securities must be done in writing. Discretionary authority may include, but is not limited to:

- Which securities are traded (bought or sold)
- The amount of securities purchased or sold
- Which broker-dealer is utilized
- What commission rates are paid (if negotiable)

**LFC will not take discretionary authority or exercise control over any private investment transactions such as purchase or sale of partnership interests. Investments made in private assets are done only by direct and written client approval on each investment.**

## **Item 17 - Voting Client Proxies**

Although Lee Financial is not obligated to accept client proxy voting responsibilities, we are frequently asked by our clients to vote proxies on their behalf and we are willing to do so once client authorization is granted. Importantly, LFC may abstain from voting client proxies in particular proxy contests when the costs associated with casting the vote outweigh the potential benefit to clients. We receive the majority of proxies directly from clients' custodians.

LFC frequently assists clients in completing applicable forms and compiling the necessary documentation to grant the custodian authority to send proxy materials directly to us. These instructions are generally incorporated into the custodian's account application, which is completed by the client when a new account is opened.

Our designated Investment Analysts responsible for proxy voting will review the proxy materials and vote proxies in a manner that we believe is consistent with enhancing the economic and/or social value of the underlying investment. Investment Analysts will generally vote in favor of routine corporate proposals such as the election of directors and selection of auditors, absent any conflicts of interest that may arise due to a director's outside activities or an auditor's non-audit services. Proxies are typically voted the same way for each client and completed in a timely manner. Additionally, clients may provide us instructions on how they would like us to vote their proxies on their behalf, and request information on how we voted their securities.

Non-routine corporate proposals may include matters involving corporate governance and capital structures, adoption and/or amendments to incentive and compensation plans, social issues and/or corporate responsibility, and mergers and acquisitions (M&A) transactions. In addition to proxy materials, Investment Analysts may gather additional information on these non-routine corporate proposals from news services and SEC filings to make informed voting decisions. Our Investment Analysts will also review board recommendations and their appropriateness for each of the proposals. With regard to M&A transactions, our Investment Analysts may also perform additional research on proposed takeover valuations and may utilize the opinions of independent shareholder advisory firms and/or large shareholders in formulating voting decisions. This may also include an evaluation of how the investment has performed under specific client ownership and if reasonable value can be realized from the proposed transaction.

### *Conflicts of Interest*

Conflicts of interest may arise when a proxy represents a public company for whom we:

- Manage that company's pension plan;
- Administer that company's employee benefit plan;
- Provide brokerage, underwriting, insurance or banking services to that company; or
- Manage money for an employee group of that company.

In addition, it will be considered a conflict of interest if a LFC Employee is a close relative of, or has a personal or business relationship with:

- An executive or director of a company;
- A person who is a candidate to be an executive or director of a company; or
- A participant in a proxy contest vote.

As conflicts are identified, our Investment Analysts will make a decision to either have other designated LFC employees vote the proxy or forward the proxy directly to the clients for them to vote the proxy. Investment Analysts responsible for voting proxies are required to report to LFC's Chief Compliance Officer any attempts by LFC employees to influence proxy voting decisions that are inconsistent with the best interests of our clients. If one of LFC's Executive Officers is the person attempting to influence proxy voting, that conflict should be reported to one or more of our other Executive Officers. In addition, the Investment Analysts are required to report all conflicts of interest that arise in connection with proxy voting decisions and any conflicts that occurred in the past that have come to their attention to the Chief Compliance Officer.

### *Proxy Voting Records and Requests for Proxy Voting Information*

LFC uses a third party proxy voting service, Broadridge ProxyEdge to electronically vote client proxies when available. LFC maintains the voting records according to our Books and Records Retention Procedures:

- Proxy voting policies and procedures
- Documentation of proxy voting records and any material used in addition to making proxy voting decisions
- Client requests for information as to how we voted a particular proxy and a copy of the response from LFC to any requests for information.

A copy of our proxy voting procedures, proxy voting records and any supplemental documentation material if applicable is available to clients upon request to our Chief Compliance Officer, Kirsten Mires.

### **Item 18 - Financial Information**

Included in this Form ADV is a copy of our current balance sheet.

We do not have any financial conditions limiting our ability to serve you throughout our relationship.

### **Item 19 - Requirements for State-Registered Advisers**

We are registered with the U.S. Securities and Exchange Commission and licensed with the state securities commissions in California, Colorado, and Texas.



## **Terms**

**12B-1** - An annual marketing or distribution fee on a mutual fund, also considered an operational expense and is included in the fund's expense ratio.

**IRR** - Internal Rate of Return is the rate of growth generated on an annualized effective compounded basis.

**Clawback** - Money or benefits that are distributed and then taken back as a result of special circumstances.

**Counterparty** – The other party that participates in a financial transaction. For example, a buyer and a seller are counterparties.

**High Water Mark** - The highest peak in value that an investment fund/account has reached. This is often used in the context of fund manager compensation which is performance based.

**Hurdle Rate**- Also known as preferred return is the minimum return per annum that must be generated for limited partners before the general partner can begin receiving a percentage of profits from investments.

**Preferred Return**- Also known as hurdle rate, is the minimum return per annum that must be generated for limited partners before the general partner can begin receiving a percentage of profits from investments.

**Side-Pocket** - A type of account used in hedge funds to separate illiquid assets from other more liquid investments. Once an investment enters a side pocket account, only the present participants in the hedge fund will be entitled to a share of it. Future investors will not receive a share of the proceeds when the assets are sold.

**Lee Financial Corporation**  
**Balance Sheet**  
**As Of December 31, 2011**

	<u>Prior Month</u>	<u>Current Month</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash		
Petty Cash	\$450.00	\$450.00
Operating Cash - UTB	104,368.77	125,537.63
Money Market Cash	736,776.84	918,236.80
Payroll Cash - UTB	250,205.07	145,656.88
125 Plan Cash - UTB	<u>19,990.67</u>	<u>23,946.63</u>
Total Cash	1,111,791.35	1,213,827.94
Marketable Securities - NAHINC	55,500.00	55,500.00
Accounts Receivable Control Account	1,619,148.68	324,934.03
Reimbursable Accounts Receivable	2,222.56	
Shareholder/Employee Advances	8,374.15	4,813.47
Prepaid Expenses	173,751.65	149,932.34
Deposit	6,312.50	6,312.50
Notes Receivable	<u>463,131.51</u>	<u>464,227.13</u>
Total Current Assets	3,440,232.40	2,219,547.41
<b>Other Current Assets</b>		
Investment in Partnerships	<u>72,456.54</u>	<u>87,581.49</u>
Total Other Current Assets	72,456.54	87,581.49
<b>Fixed Assets</b>		
Auto, FF&E, Leased Assets	567,436.33	567,436.33
Computer HW and Software	<u>1,242,446.45</u>	<u>1,272,957.24</u>
Total Fixed Assets	1,809,882.78	1,840,393.57
Accumulated Depreciation	<u>(1,664,084.26)</u>	<u>(1,658,746.20)</u>
Fixed Assets Net of Accumulated Depreciation	<u>145,798.52</u>	<u>181,647.37</u>
<b>Total Assets</b>	<u><u>3,658,487.46</u></u>	<u><u>2,488,776.27</u></u>

**Lee Financial Corporation**  
**Balance Sheet**  
**As Of December 31, 2011**

	<u>Prior Month</u>	<u>Current Month</u>
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Accounts Payable Control Account	\$236,546.38	\$157,099.08
Accounts Payable Suspense	0.44	8,255.80
Payroll Liabilities	77,531.59	160,095.54
Accrued Expenses	50,893.15	20,660.00
Accrued Property Taxes	7,106.88	6,220.12
Rent Payable	43,548.15	42,187.42
Deferred Revenue	663,470.82	
Accrued Vacation and Sick Leave	342,557.26	332,208.21
Curr Portion of LT BMW Note Pay		9,113.76
Long-Term BMW Note Payable	<u>34,250.13</u>	<u>24,319.78</u>
Total Liabilities	1,455,904.80	760,159.71
<b>Equity</b>		
Capital Stock	24,494.50	24,494.50
Additional Paid-In Capital	376,269.20	376,269.20
Accumulated Retained Earnings	1,724,563.10	1,724,563.10
YTD Income	153,448.93	(320,517.17)
Less Cost of Treasury Stock	<u>(76,193.07)</u>	<u>(76,193.07)</u>
Total Equity	2,202,582.66	1,728,616.56
<b>Total Liabilities and Equity</b>	<u><u>3,658,487.46</u></u>	<u><u>2,488,776.27</u></u>