

## **STRATEGIC FINANCIAL MANAGEMENT, LLC**

### **FORM ADV – PART 2A (FIRM BROCHURE)**

#### **Item 1 – Identification**

##### **Principal Business Office Address:**

23 Budapest Street  
Monroe, New Jersey 08331  
Main Telephone Number: 732-841-3525

**Brochure Date: March 30, 2013**

This Brochure provides information about the qualifications and business practices of Strategic Financial Management, LLC (“SFM”). If you have any questions about the contents of this Brochure, please contact us at (732) 841-3525. 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.

SFM is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training.

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

## **Item 2 – Material Changes**

Since the last update to this Brochure on December 1, 2011, there have been the material changes listed below. In addition to reviewing the material changes, we recommend clients review the entire Brochure.

Each year, this Item will discuss only specific material changes that are made to the Brochure and will provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

Pursuant to new SEC Rules, we are required to ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year of December 31<sup>st</sup>. We will further provide you with a new Brochure as necessary based on material changes as required by law.

Our Brochure may be requested by contacting us at 23 Budapest Street, Monroe, New Jersey 08331, or by telephone at (732) 841-3525.

### **Material Changes:**

Updated Assets under Management in Item 4

Addition of new Related Business and potential conflicts of interest therefrom in Item 10

Updated Custody Information in Item 15

### **Item 3 -Table of Contents**

Item 1 – Identification.....	1
Item 2 – Material Changes.....	2
Item 3 -Table of Contents .....	3
Item 4 – Advisory Business .....	4
Item 5 – Fees and Compensation .....	5
Item 6 – Performance-Based Fees.....	6
Item 7 – Types of Clients.....	6
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	6
Item 9 – Disciplinary Information .....	11
Item 10 – Other Financial Industry Activities and Affiliations .....	12
Item 11 – Code of Ethics.....	12
Item 12 – Brokerage Practices.....	15
Item 13 – Review of Accounts .....	17
Item 14 – Client Referrals and Other Compensation.....	17
Item 15 – Custody .....	17
Item 16 – Investment Discretion .....	18
Item 17 – Voting Client Securities .....	18
Item 18 – Financial Information.....	19
Brochure Supplement(s) are provided separately to clients.	

## **Item 4 – Advisory Business**

### **Section A.**

#### **THE COMPANY**

Strategic Financial Management, LLC (“SFM” or “the Firm” or “we”) is organized as a limited liability company under the laws of the state of New Jersey and is registered as an investment adviser with the SEC. SFM has been in business since 2004. The Firm is headquartered in Monroe, New Jersey.

#### **OWNERSHIP**

SFM is wholly owned (100%) by Dom Salvemini.

### **Section B.**

#### **TYPES OF ADVISORY SERVICES**

SFM provides nondiscretionary investment advisory services regarding securities and non-securities to ultra-high net worth individuals. The Managing Member of SFM is also actively engaged in the business of serving, in its personal capacity, as trustee to personal and family trusts and as manager of family investment entities of high-net worth individuals who are advisory clients. We treat these services provided by the Managing Member as activities of SFM. SFM through its Managing Member has discretionary power as trustee for trusts of high-net worth individuals and their families (collectively “Clients”).

### **Section C.**

#### **OVERVIEW OF ADVISORY SERVICES**

With regard to its investment advisory services for high-net worth individuals, SFM will not have discretionary authority over the Client's assets. SFM will review Client's investments and will provide investment advice and make recommendations to the Client whenever, in SFM's judgment, developments so warrant; however, the implementation of all investment decisions will require the Client's prior approval or instructions. Client remains solely responsible for all investment decisions made with respect to Client's account. As requested by Client, SFM provides services to its individual-clients that are akin to a "Family CFO" by which SFM will assist its individual-clients with qualitative, non-financial services, including a discussion of estate planning. In this capacity, SFM through its Managing Member may serve as manager of a family company and operate the company or execute documents in accordance with an entity's operating agreement, Clients' instructions and pre-approval. SFM does not provide legal advice. SFM does not believe that it conducts financial-planning services, but it may consult or interact with third parties who perform components of traditional financial planning for SFM's clients.

SFM through its Managing Member also serves as trustee of high net-worth trusts and in that capacity has discretionary authority over such Client's assets. In these situations, SFM will manage the trust in accordance with each trust's governing documents, taking into consideration risk tolerance, time horizon, tax issues, liquidity and cash flow needs, restrictions/constraints, and other relevant guidelines. SFM may recommend changes to this allocation, in an attempt to take advantage of conditions in the current economic environment, while being sensitive to transaction costs and taxes, as appropriate.

### **Section D.**

#### **WRAP FEE PROGRAMS**

SFM does not participate in wrap fee programs.

## **Section E.**

### **ASSETS UNDER MANAGEMENT**

As of December 31, 2012, SFM had approximately \$592,500,000 in nondiscretionary assets under management<sup>1</sup> and \$16,400,000 in discretionary assets under management.

These amounts do not include assets that were acquired based on SFM's advice but are not monitored by SFM, including certain closed-end private equity investments.

#### **Item 5 – Fees and Compensation**

**Fixed Fee Arrangements.** SFM charges fees according to a fixed-fee arrangement depending upon the scope and complexity of the services being performed. For example, SFM may agree to provide investment advisory for a fixed fee for a specified period. Fixed fees are negotiable and will be determined on a case-by-case basis, depending on such factors as the nature and complexity of the services, staffing arrangements, and size of the asset base. All fees will be agreed upon in advance with the Client.

Generally, fees are charged quarterly in advance, and thus, such fees will be prorated or refunded for any partial period of investment advisory service. Because SFM reserves the right to negotiate fees, certain clients pay more or less than others depending on certain factors, including but not limited to, the type and size of the account, the level and complexity of service provided, and the total amount of assets managed for a single Client.

Clients may pay other fees as such as brokerage commissions, transaction fees, custodial fees and transfer taxes, and other fees and taxes charged to brokerage accounts and securities transactions.

All SFM client assets are held by a “qualified custodian,” as that term is defined in Advisers Act Rule 206(4)-2, to the extent required by law. SFM bills its Clients directly.

**Out-of-Pocket Expenses.** In addition to fees, Clients may be responsible for certain out-of-pocket expenses for reasonable and direct costs incurred by SFM on the client's behalf. These expenses generally are for services, if any, provided by third parties. SFM will provide its Clients with an invoice containing a detailed description of such expenses as necessary.

**Other Fees.** Clients may incur certain charges imposed by custodians, brokers, third-party investment and other third parties, such as fees charged by other managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage and custodian accounts and securities transactions and certain other expenses. Fees to SFM do not include any fees due to such third parties that provide services to the client or any underlying fees and expenses associated with private funds or alternative investments in which clients' assets may be invested. The client may contract directly with investment managers, brokers, and custodians to provide services with regard to his or her assets and thus will be charged separately by such entities for their services.

---

<sup>1</sup> This amount includes assets under management for which SFM does not provide continuous and regular supervision and also includes the value of Clients' entire bank accounts over which SFM monitors and makes recommendations from time to time. This amount does not include the entire net worth of Clients. Please see Part 1A of SFM's Form ADV for the amount of regulatory assets under management (e.g., those assets under management over which SFM provides continuous and regular supervision).

## Item 6 – Performance-Based Fees

SFM does not charge performance-based fees to its Clients.

## Item 7 – Types of Clients

SFM provides nondiscretionary investment advice to ultra-high net-worth individuals and may provide discretionary investment advice or services as a trustee to trusts of high net-worth individuals or their families.

SFM requires its Clients to have a minimum account size of \$10 million before providing investment advisory services. However, fees and minimum account balances may be subject to modifications and negotiations to accommodate special client requirements.

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

### Section A.

#### METHODS OF ANALYSIS

SFM's methods of analysis include charting, fundamental, technical and cyclical.

- **Charting** - In this type of technical analysis, charts are used to plot price movements, volume, settlement prices, open interest, and other indicators, in order to anticipate future price movements. Also charts of market, security and economic data are used to help identify the timing of the market moving up or down and to predict how long trends may last and when trends might reverse. A chart is an historical record of price movements. Charting will often reveal patterns that repeat over and over with the same outcome but there is no guarantee in finding these tendencies and patterns or that historical records are an indicator of current or future movements.
- **Fundamental** - Fundamental analysis is using real data to evaluate a security's value. For example, fundamental analysis can be performed on a bond's value by looking at economic factors, such as interest rates and the overall state of the economy, and information about the bond issuer, such as potential changes in credit ratings. For assessing stocks, this method uses revenues, earnings, future growth, return on equity, profit margins and other data to determine a company's underlying value and potential for future growth. In terms of stocks, fundamental analysis focuses on the financial statements of the company being evaluated. Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating a security.
- **Technical** - This form of value analysis focuses on patterns of volume and price fluctuations for a given stock as compared to the activity of the larger, general market indicators. Securities are evaluated for purchase or sale based on an analysis of market statistics such as volume and prices over time as seen on charts, etc. that are believed to establish relational patterns that can predict future movements in the markets. This relative comparison has little or no concern for any company's

fundamental structure, production or worth. Technical analysis assumes that all the market factors are known to and considered by all the market's participants, although the market can act in irrational ways. Technical analysis purports to see repeatable patterns in similar market conditions, but any one of many factors may alter the outcome of an otherwise similar situation.

- **Cyclical** - There are industries in which profits rise and fall on a cyclical basis. As profits of companies follow cyclical patterns, so do their stocks: going up and down, reflecting the current stage of the business cycle. There are a wide variety of industries that can be described as having distinct business cycles: oil and gas, semi-conductors, car-manufacturing, mining, home-building, fertilizer production and many others. Their main feature is that their profits and thus stock prices follow similar rising and falling patterns over the long run. There is no guarantee that historical trends will indicate current cycles.

The main sources of information that SFM uses includes publicly available sources, such as newspapers, company press releases, timing services, annual reports, trade journals, corporate rating services and contact with outside analysts, as well as SFM's own assessment of the financial consequences of world events.

## **Section B.**

### **INVESTMENT STRATEGIES USED TO IMPLEMENT INVESTMENT ADVICE**

Any investment advice provided by SFM to Clients is based on a number of factors, including, but not necessarily limited to, the Client's investment objectives, risk tolerances, asset-class preferences, time horizons, liquidity needs, expected returns, and an assessment of current economic and market views expressed by economists, analysts, banks, and securities firms.

Investment strategies emphasize long-term investments in a diversified portfolio intended to meet the Client's long-term financial objectives. SFM primarily recommends to its Clients equity investments in companies, including small capitalization and large companies as well as start ups, private funds, and sports teams, as well as investments in commercial real estate and hotels, to achieve growth and value for Clients. SFM may also recommend equity trades in other private investments, fixed income securities, principal-protected notes, reverse-convertible notes, non-U.S. investments, short sales, leverage, derivatives and alternative securities.

## **Section C.**

### **RISK OF LOSS**

**Investing in securities involves risk of loss that clients should be prepared to bear.** All investments carry the risk of loss and there is no guarantee that any investment strategy will meet its objective. Depending on the type of security, your account may face the following investment risks:

**Private Companies** - Client portfolios may suffer losses through their investments in securities purchased in secondary market transactions or private placements. SFM may recommend principal investments in securities through secondary market transactions or through direct investment in private companies through private placements. Investments in private companies may require the client to bear the economic risk of its investment for an indefinite period of time because, among other reasons, the interest in the company has not been registered under the Securities Act or under the securities laws of certain states and,

therefore, cannot be resold, pledged, assigned or otherwise disposed of unless it is subsequently registered under the Securities Act and under applicable securities laws of such states or an exemption from such registration is available. There may not be a secondary market for the interest in the private company through which a Client could sell or dispose of its holdings.

**Small Capitalization Companies** - Client portfolios may have assets invested in smaller and less established companies. Both debt and equity securities of such issuers tend to be more volatile than larger, more established companies. Such volatility could adversely impact client portfolios.

**Large Company Risk** - Large cap stocks can perform differently from other segments of the equity market of the equity market as a whole. Large capitalization companies may be less flexible in evolving markets or unable to implement change as quickly as smaller capitalization companies.

**Sports Industry** - The sports industry faces competition from other spectator-oriented sporting events as well as other leisure, entertainment, and recreational activities. As a result, the revenues of sports teams are affected by the general popularity of the sport, the availability of alternative forms of recreation, and changing consumer preferences and habits, including how consumers consume sports and entertainment. The sports industry's financial results depend significantly upon a number of factors relating to discretionary consumer and corporate spending, including economic conditions affecting disposable consumer income and corporate budgets such as: employment; business conditions; interest rates; and taxation rates. These factors can impact both attendance at events and advertising and marketing dollars available from the sports industry's principal sponsors and potential sponsors. Economic and other lifestyle conditions, such as illiquid consumer and business credit markets, adversely affect consumer and corporate spending thereby impacting the sports industry's revenue, profitability, and financial results. Further, changes in consumer behavior such as deferred purchasing decisions and decreased spending budgets adversely impact the industry's cash flow visibility and revenues. The significant economic deterioration that occurred during fiscal 2008, for example, has impacted these areas of the industry's business, revenues, and financial results. Additionally, the financial success of the individual sports teams and franchises are dependent to a large degree on corporate sponsorship to help defray costs. To date, corporate sponsorship in some cities has been negligible and as a result, some of the franchises have been required to absorb expenses, which would otherwise have been supported by corporate sponsorship. As a result, profits of some of the franchises have been affected and many of the franchises have operated at a loss.

**General Real Estate Risks** - A real estate investment is subject to certain risks, including those associated with the direct ownership of real estate and with the real estate industry in general. These risks include, among other things: (i) adverse changes in local, national, or international economic or other conditions, including those relating to potential terrorist activities and U.S. involvement in armed conflicts, (ii) the financial condition of tenants, buyers and sellers of properties, (iii) environmental laws and regulations, (iv) zoning and land use laws and other governmental rules, (v) environmental claims arising in respect of real estate acquired with undisclosed or unknown environmental problems or as to which



inadequate reserves had been established, (vi) costs resulting from the clean-up of, and liability to third parties for damages resulting from, whether known or unknown, environmental problems, casualty or condemnation losses, and/or uninsured damages from, whether as a result of acts of God or man, floods, hurricanes, fire, natural disasters, or other uninsurable losses, (vii) possible declines in the value of real estate, (viii) delays in the acquisition of properties and costs associated with failed acquisition transactions of properties, including, but not limited to, those that do not have satisfactory due diligence reviews, (ix) possible lack of availability of mortgage financing funds, (x) overbuilding, (xi) increases in competition; (xii) property taxes and operating expenses; (xiii) changes in interest rates, and (ix) other factors beyond the control of SFM. Certain states' climates present risks of natural disasters.

**Private Funds** - SFM may recommend that Clients invest in unaffiliated private funds (including, but not limited to, U.S. or offshore unit investment trusts, open-end and closed-end mutual funds and hedge funds, private equity funds, venture capital funds, advisory accounts, real estate investment trusts, ETFs, or other private alternative or other investment funds, regardless of whether any of the foregoing investment vehicles are affiliated with us) (collectively, "Private Funds and Managers"). These Private Funds and Managers will charge their own management and other fees, so that if Clients invest in them, Clients will bear an additional level of fees and expenses. These Private Funds may have unique risks of loss as described in their offering documents.

**Equity Risk** - Investments in equity securities generally involves a high degree of risk. Prices are volatile and market movements are difficult to predict. These price movements may result from factors affecting individual companies or industries. Price changes may be temporary or last for extended periods. In addition to, or in spite of, the impact of movements in the overall stock market, the value of investments may decline if the particular investments within the portfolio do not perform well in the market. Prices of growth stocks may be more sensitive to changes in current or expected earnings than prices of other stocks. Prices of stocks may fall or fail to appreciate regardless of movements in securities markets.

**Fixed Income Risks** - Investments in fixed income securities represent numerous risks such as credit, interest rate, reinvestment, and prepayment risk. These risks represent the potential for a large amount of price volatility. In general, securities with longer maturities are more sensitive to price changes. Additionally, the prices of high yield, fixed-income securities fluctuate more than high quality debt issues. Prices are especially sensitive to developments affecting the company's business and to changes in the ratings assigned by rating agencies. Prices are often closely linked with the company's stock prices. High yield securities can experience sudden and sharp price swings due to changes in economic conditions, stock market activity, large sales by major investors, default, or other factors. Developments in the credit market may have a substantial impact on the companies we may invest in and will affect the success of such investments. In the event of a default, the investment may suffer a partial or total loss.

**Principal-Protected Notes** - The principal guarantee is subject to the credit-worthiness of the guarantor. In addition, principal protection levels can vary. While some products guarantee 100 percent return of principal, others guarantee as little as 10 percent. In most

cases, the principal guarantee only applies to notes that are held to maturity. Issuers may (but are not obligated to) provide a secondary market for certain notes but, depending on demand, the notes may trade at significant discounts to their purchase price and might not return all of the guaranteed amount. Some principal-protected notes have complicated pay-out structures that can make it hard for an adviser to accurately assess their risk and potential for growth.

**Reverse-Convertible Notes** - Reverse convertible notes ("RCNs") are complex structured products. An RCN generally consists of a high-yield, short-term note of the issuer that is linked to the performance of an unrelated reference asset—often a single stock but sometimes a basket of stocks, an index or some other asset. The investor does not own and does not get to participate in any upside appreciation of the underlying asset. The product works like a package of financial instruments that typically has two components:

- a debt instrument (usually a note and often called the "wrapper") that pays an above-market coupon (on a monthly or quarterly basis); and
- a derivative, in the form of a put option, that gives the issuer the right to repay principal to the investor in the form of a set amount of the underlying asset, rather than cash, if the price of the underlying asset dips below a predetermined price (often referred to as the "knock-in" level).

RCNs expose investors not only to risks traditionally associated with bonds and other fixed income products—such as the risk of issuer default and inflation risk—but also to the additional risks of the unrelated assets. The credit rating of the issuer does not necessarily reflect the risks associated with the underlying asset. In addition, there may be conflicts related to the relationship between the issuer and the underlying asset.

**Non-U.S. Investments** - We may recommend that Clients invest in securities (*debt, equity, currencies, derivatives, etc.*) domiciled outside the United States. Such investments expose the portfolio to a number of risks that may not exist in the domestic market alone. Such risks include, among other things, trade balances and imbalances and related economic policies, currency exchange rate fluctuations, imposition of exchange control regulation, withholding taxes, limitations on the removal of funds or other assets, and possible nationalization of assets or industries. Additionally, many foreign countries are undergoing, or have undergone in recent years, significant political change that has affected government policy, including changes in the regulation of industry, trade, financial markets, and foreign and domestic investment. The relative instability of these political systems leaves these countries more vulnerable to economic hardship, public unrest or popular dissatisfaction with reform, political or diplomatic changes, social instability, or changes in government policies. For investors, the results may include confiscatory taxation, exchange controls, compulsory reacquisition, nationalization or expropriation of foreign-owned assets without adequate compensation, or the restructuring of certain industry sectors in a way that could adversely affect investments in those sectors. The nature and extent of these risks vary from country to country, among investment instruments, and over time.

**Short Sales, Leverage and Derivatives** - Short sales, leverage, and derivatives all represent substantial risks given their inherent heightened risk of loss. Leverage and

derivatives imply borrowing capital. When such borrowing is deployed, losses can escalate quickly should investments suffer even small losses. Short sales involve a finite opportunity for appreciation, but a theoretically unlimited risk of loss. Short positions are also subject to a “short squeeze” that could lead to accelerating losses for those short that particular security.

**Market Risk** - The success of client portfolio activities will be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, commodity prices, economic uncertainty, changes in laws, trade barrier, currency fluctuations and controls, and national and international political circumstances. These factors may affect the level of volatility of securities prices and the liquidity of investments in client portfolios. Such volatility or illiquidity could impair profitability or result in losses.

**Potential Concentration** - Client portfolios may have highly concentrated positions in issuers engaged in one or a few industries. This increases the risk of loss relative to the market as a whole.

**Extraordinary Events** - Global terrorist activity and United States involvement in armed conflict may negatively affect general economic fortunes, including sales, profits, and production, and may lead to depressed securities prices and problems with trading facilities and infrastructure.

**Increased Regulations** - Events during the past several years and adverse financial results have focused attention upon the necessity to maintain adequate risk controls and compliance procedures. These events have led to increased governmental and self-regulatory authority scrutiny of the financial industry. Various national governments have also expressed concern regarding disruptive effects of speculative trading and the need to regulate the markets in general. Any regulations that restrict the ability to employ, or broker-dealers and counterparties to extend, credit or restrict trading activities could adversely impact profit potential.

**Market Liquidity Risks** - The value of securities held in client accounts and that are traded on exchanges and the risks associated with holding these positions vary in response to events that affect asset markets in general. Market disruptions such as those that occurred in 1987, September 2001, and more recently the Flash Crash in May 2010 could lead to violent price swings in securities held within client portfolios and could result in substantial losses.

## **Item 9 – Disciplinary Information**

There are no legal or disciplinary events that are material to a Client’s or prospective client’s evaluation of SFM’s advisory business or the integrity of our management.

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

### **Section A.**

#### **BROKER DEALER**

Neither SFM nor any of its management persons is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

### **Section B.**

#### **COMMODITY POOL OPERATOR AND COMMODITY TRADING ADVISER**

Neither SFM nor any of its management persons is registered as a Commodity Pool Operator or Commodity Trading Advisor.

### **Section C.**

#### **OTHER RELATIONSHIPS AND/OR ARRANGEMENTS MATERIAL TO ADVISORY BUSINESS**

The Managing Member of SFM has established a separate business, SFM Accounting & Consulting, LLC ("SFMAC"), to handle non-investment advisory services for Clients. As requested by Clients and pursuant to a separate written agreement with SFMAC, SFMAC provides Clients additional services, such as construction and real estate management. SFMAC is not a registered investment advisor and does not provide any investment advice. SFM and SFMAC share office space and personnel, which may cause for the potential of an actual or apparent conflict and information risks. However, SFMAC and SFM do not conduct joint operations; each entity has separate bank accounts and does not commingle assets; and each entity operates pursuant to separate written agreements and each separately invoices and receives fees for its services. SFM does not expect that the overlap in personnel will negatively affect the services SFM performs for Clients.

SFM has no other affiliated relationships or businesses.

## **Item 11 – Code of Ethics**

### **Section A.**

#### **CODE OF ETHICS**

Pursuant to SEC Rule 204A-1, SFM has adopted a written Code of Ethics ("Code") that sets forth standards of conduct and certain federal securities law requirements applicable to all supervised persons as defined in the Advisers Act. SFM has also adopted written supervisory procedures concerning its advisory business. All employees review and acknowledge reviewing the Code and the supervisory procedures annually. Code and/or procedure violations may result in disciplinary action or dismissal. SFM will provide a copy of its Code to any Client or prospective client upon request. Please contact SFM at the address or phone number listed on the face of this Brochure to request a copy.

### **Section B.**

#### **PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

SFM acts as investment manager to numerous clients. SFM may give advice and take action with respect to any accounts it manages that may differ from action taken by SFM on behalf of other accounts. SFM is not obligated to recommend for purchase or sale or to refrain from recommending for purchase or sale any security that SFM or its Access Persons (defined below) may buy or sell for their own accounts or for the accounts of any other Client. SFM is

not obligated to refrain from investing in securities held by accounts that it manages except to the extent that such investments violate the Code adopted by SFM.

Certain SFM officers, members, and employees ("Related Persons") act as trustees for personal or family trusts of advisory clients. SFM does not at this time, but may, invest client accounts in, among other things, securities in which SFM or its Related Persons have a financial interest. SFM or its Related Persons do not at this time, but may, purchase for themselves securities or other investments which one or more Clients own, previously owned, or will own in the future. As these situations may represent a potential conflict of interest, SFM has adopted procedures relating to personal securities transactions and insider trading, both of which are described below, that are reasonably designed to prevent actual conflicts of interest.

If it is appropriate to buy or sell a security at the same time for both a Client, upon the Client's prior instruction, and a Related Person, combined orders may be placed and if any order is not filled at the same price, prices obtained may be allocated among accounts on an average basis. Placing combined orders is not required. There may be times when the sale or purchase of a security for a Related Person may precede, occur at the same time, or follow the sale or purchase of a security for a Client, subject to the overriding principle that the interests of Clients must come before the interests of SFM or its Related Persons.

SFM may manage simultaneously parallel accounts, in some cases with similar objectives, but with differing fees to SFM. SFM also may similarly manage simultaneously certain accounts that may hold short positions in a security for which other managed accounts are long. SFM's policy is to manage each account independently and fairly and recognizes and seeks to control the conflicts of interests inherent in such practices.

SFM personnel may receive gifts and gratuities, including travel and entertainment, from SFM's Clients. SFM does not favor Clients who give gifts over Clients who do not.

### ***Restrictions on Personal Securities Transactions***

To address the conflicts of interest that arise with the personal trading of SFM employees, the Code prohibits certain types of personal securities transactions. The Code is designed to permit personnel to invest for their own accounts while assuring that their personal transaction activity does not interfere with making decisions in the best interest of advisory Clients or implementing those decisions. Neither the Firm nor any associated person of the Firm who (a) has access to nonpublic information regarding Clients' securities transactions, (b) is involved in making securities recommendations to Clients, or (c) has access to securities recommendations that are not public (collectively, the "Access Persons") is permitted to trade in or engage in a securities transaction to his or her advantage over that of a Client. Access Persons are prohibited from buying or selling securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her employment unless the information is also available to the investing public upon reasonable inquiry. Access Persons may not execute transactions in their personal accounts ahead of a Client's transaction in the same security unless certain circumstances exist.

Employees must submit their brokerage statements quarterly to the Chief Compliance Officer for review and archiving. However, there is no person senior to or otherwise independent from the Chief Compliance Officer and transactions in the personal securities account(s) of the Chief Compliance Officer may not receive the same internal scrutiny as accounts of other employees. Employees do not at this time, but may, purchase and sell securities for their own accounts that have also been recommended to Clients. The Code is designed to assure that the personal securities transactions and interests of the employees

will not interfere with making decisions in the best interest of clients. Nonetheless, because the Code permits employees to invest in the same securities as clients, there is a possibility that employees might benefit from transaction activity by a Client.

### ***Disclosure of Personal Investments***

SFM principals and employees may maintain personal brokerage accounts subject to the Firm's Code. Access Persons are required to provide a quarterly report to the Chief Compliance Officer, or other designated person, showing investment transactions in their personal accounts, as well as disclosing annually all securities held on their behalf. Certain securities are exempt from reporting based upon the determination that these would not pose any material conflicts. These reports are monitored regularly to seek to reasonably prevent conflicts of interest between SFM and its Clients. There is an inherent conflict of interest between our fiduciary duty of best execution for our Clients and the apparent self-interest of employees trading in the same securities contemporaneously.

SFM personnel may receive or give certain gifts and gratuities or travel/entertainment from or to broker-dealers or other persons with whom SFM does business. This may include such things as tickets to sporting events, or the theater, meals and other entertainment, transportation, attendance at seminars or other educational, training or informational events, logo items and other items of small value, gifts associated with life events such as birthdays, weddings, anniversaries, and other gifts of more substantial value. Receipt of such gifts and gratuities might be viewed as causing a conflict of interest for SFM in selecting brokers and dealers and other service providers to the extent that SFM has been given the prior approval to make such selections.

### ***Insider Trading Policy***

SFM may, from time to time, come into possession of material nonpublic and other confidential information which, if disclosed, might affect an investor's decision to buy, sell, or hold a security. Under applicable law, SFM may be prohibited from improperly disclosing or using such information for its personal benefit or for the benefit of any other person, regardless if such other person is a client. Accordingly, should such persons come into possession of material nonpublic or other confidential information with respect to any company, they may be prohibited from communicating such information to, or using such information for the benefit of, clients and have no obligation or responsibility to disclose such information to, nor responsibility to use such information for the benefit of, clients when following policies and procedures designed to comply with law.

The Code also contains a policy, adopted in accordance with Advisers Act Section 204A, that establishes procedures to prevent the misuse of material nonpublic information by supervised persons. Supervised persons are prohibited from trading, either personally or on behalf of others, while in possession of material nonpublic information in violation of the law. Any supervised person who fails to observe the aforementioned policies risks serious sanctions, including dismissal and personal liability.

### ***Dependence on Key Person***

SFM is dependent on the experience and expertise of the principal and single manager of SFM, Dom Salvemini. In the event of his death, disability, or departure, the business of SFM could be adversely affected and SFM's ability to service its clients would be impaired. Further, as the sole manager, Mr. Salvemini is responsible for supervising the advisory activities of SFM. There are risks and conflicts of interest associated with such self-supervision.

## **Item 12 – Brokerage Practices**

### **SELECTION CRITERIA FOR BROKERS AND DEALERS**

With respect to high-net worth individual Clients, SFM does not have discretion to determine the particular securities or amounts of such securities to be bought and sold. SFM will make recommendations to Clients and may, after receiving Client approval, place orders for the execution of portfolio transactions for the client account and select the brokers and dealers to effect such transactions.

When serving as trustee, SFM has discretion to determine the particular securities and amounts of such securities to be bought and sold, subject to restrictions that may be specified in the trust's governing documents. In these situations, SFM selects broker-dealers who are registered and licensed. In selecting broker-dealers, SFM may consider various factors including size of the transaction, nature of the transaction, nature of the market, research capability, reliability, knowledge of markets and industries, good and timely delivery and payment, promptness of execution, clearance and settlement efficiency and accuracy, customer service and responsiveness, net price, commission rates, access to sources of supply and demand, financial condition, stability, integrity, commitment to the security and protection of confidential information, broker capital commitment, reputation, and other advantages.

### **COMMISSION RATES OR EQUIVALENTS**

When SFM has the authority to select the brokers and dealers, it is the Firm's policy to seek the best net price and execution for its transactions, taking into account all relevant factors. However, this responsibility shall not obligate SFM to solicit competitive bids for each transaction or to seek the lowest available commission cost. SFM has controls in place for monitoring execution in client portfolios in an attempt to ensure best execution in client portfolios. The determination and evaluation of the reasonableness of the brokerage commissions paid in connection with portfolio transactions are based to a large degree on the professional opinions of the persons responsible for the placement and review of such transactions. Clients may pay commissions higher than those obtainable from other brokers for the same services rendered by the broker-dealers selected or recommended to the Client by the Firm.

### **“SOFT DOLLAR” OR RESEARCH/EXECUTION POLICY**

SFM may enter into “soft dollar” arrangements with certain broker-dealers. Under these arrangements, the brokerage firms would provide or pay the costs of certain services or other items for the benefit of SFM. This poses conflicts of interests. The services and other items provided or for which payment is otherwise made using soft dollar and brokerage service arrangements on behalf of SFM may include, without limitation, prime brokerage services, proprietary (developed by the broker) and third-party research services and products, proxy voting services, software and services used in the management of client portfolios or client portfolio analysis, investment research, consulting fees and charges, fees and charges for news wire, other client investment research, quotation services, periodical subscription fees and similar charges.

When we use client brokerage commissions (or markups or markdowns) to obtain research or other products or services, we receive a benefit because we do not have to produce or pay for the research, products or services. We may have an incentive to select or recommend a broker-dealer based on our interest in receiving the research or other products or services, rather than our Clients' interest in receiving most favorable execution. We may cause Clients



to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying-up). We use soft-dollar benefits to service all of our clients' accounts, not only those that paid for the benefits. We do not seek to allocate soft-dollar benefits to client accounts proportionately to the soft-dollar credits the accounts generate. Some products or services do not qualify for the safe harbor in Section 28(e) of the Securities Exchange Act of 1934, such as those services that do not aid in investment decision-making or trade execution. In the last fiscal year, SFM received research from banks and brokers involved in discretionary and nondiscretionary Clients' transactions. To the extent that these transactions were for nondiscretionary Clients, the receipt of research falls outside the safe harbor in Section 28(e) of the Securities Exchange Act of 1934. The institutions from which SFM received research included JP Morgan, Barclays, Citibank, and Morgan Stanley.

#### **BROKERAGE FOR CLIENT REFERRALS**

We may consider, in selecting or recommending broker-dealers, whether we receive client referrals from a broker-dealer or third party. This creates conflicts of interest as we may have an incentive to select or recommend a broker-dealer based on our interest in receiving client referrals, rather than on our Clients' interest in receiving most favorable execution. In the last fiscal year, SFM did not direct client transactions to a particular broker-dealer in return for client referrals.

#### **DIRECTED BROKERAGE POLICY**

Clients may, under certain circumstances, negotiate transaction rates and fees directly with a broker-dealer and direct SFM to use a broker or dealer to execute any or all portfolio transactions for the account. SFM may accept such client instructions, provided they are in writing.

Where a Client directs the use of a particular broker-dealer, or broker-dealers, SFM may not be in a position where it can negotiate commission rates or spreads or obtain volume discounts; thus, best price may not be achieved. In addition, transactions for a Client that directs brokerage may not be aggregated with orders for the same securities for other accounts managed by SFM. Trades for a Client that has directed use of a particular broker or dealer may be placed at the end of aggregated trading activity for a particular security. Accordingly, directed transactions may be subject to price movements, particularly in volatile markets, that may result in the Client receiving less favorable pricing. Under these circumstances, the direction by a Client of a particular broker or dealer to execute transactions may result in higher commissions, greater spreads, or less favorable net prices, including minimum ticket charges, than might be the case if SFM could negotiate commission rates or spreads freely or select brokers or dealers based on best execution. SFM may also have a potential conflict of interest if the directed broker has referred the Client or other Clients to SFM.

#### **AGGREGATION**

Aggregation or "blocking" of client transactions allows an adviser to execute transactions in a more timely, equitable, and efficient manner and seeks to reduce overall commission charges. Not aggregating may increase cost to clients. SFM does not generally block trade, but on occasion may do so. In such circumstances, block trading will be performed on a case-by-case basis. Nevertheless, SFM will treat all client accounts fairly over time.



## **Item 13 – Review of Accounts**

### **PORTFOLIO REVIEWS**

SFM's Managing Partner reviews client accounts and portfolios periodically depending upon the account needs and conditions of each market. Reviews may be undertaken because of change in market conditions; change of security positions; request by a Client for a meeting; or changes in a Client's investment objective or policies. Performance of accounts in connection with objectives, security positions and other investment opportunities, commitment to any one industry and commitment to any one security are among the matters that may be discussed.

### **CLIENT REPORTS**

Clients request the frequency with which they would like to receive written reports. Additionally, Clients may request the type of information that their personalized report contains. Accordingly, SFM sends personalized reports to Clients per their requests and does not send reports containing standardized information on an automatic basis to all Clients with the same frequency.

This report is not intended to replace the statement provided by your custodian, which should be considered your official record for all pertinent account information. SFM's reports are provided in a different format from that of your custodian and may vary in content and scope. Therefore, you should compare the asset information to the statement provided by your custodian.

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

SFM does not receive any economic benefits other than fixed fees paid to the Firm by its Clients. SFM and its employees receive noneconomic benefits through the use of soft-dollar arrangements. SFM and its representatives do not receive any economic benefits from any third parties with respect to the advisory services offered to Clients. Product sponsors or other third parties may offer SFM representatives invitations to training sessions, due diligence visits, or other meeting or events at the expense of the third party. These invitations are not offered directly as a result of any amount of business placed with the third party, but the volume of business placed with a particular party may be indirectly related.

SFM may make payments to third parties who recommend potential clients; however, SFM currently has no such referral arrangements.

## **Item 15 – Custody**

SFM is not a qualified custodian and does not provide custodial services to its Clients. With respect to the trust-Clients, SFM has no physical custody because trust-Clients select banks or registered broker-dealers that are "qualified custodians" to provide custody of client assets. However, under the SEC's Custody Rule, SFM is deemed to have custody with respect to the trust-Clients due to its services as a trustee.

With respect to the majority of its natural person-Clients, SFM does not have, and is not deemed to have, custody. However, there are a few natural person Clients for whom SFM is deemed to have custody because SFM either serves as manager to the Client's family

company or SFM has the ability to withdraw funds and move money into or out of such Client's account (collectively with trust-Clients, "Custody Clients").

Accordingly, SFM must and does submit to surprise annual audits by an independent public accountant; these audits are limited to a review of the assets of Custody-Clients only.

Custody-Clients should receive quarterly custodial statements directly from your qualified custodian. We urge you to carefully review those statements and compare the custodial records to the reports we provide you. Comparing reports will allow you to determine whether account transactions, including paying advisory fees, are proper. The information in our reports may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

#### **Item 16 – Investment Discretion**

SFM does not have discretionary authority to manage securities accounts on behalf of its high net-worth individual Clients. However, SFM has discretionary authority as trustee to manage securities accounts on behalf of its Clients that are trusts. Whenever SFM has such discretion, it is exercised observing investment limitations and restrictions that are outlined in each trust's governing documents, which will appoint SFM or its employee as trustee. Clients can and do place reasonable restrictions on SFM's investment discretion. The most common restrictions are to limitations on the types of investments. Such investment guidelines and restrictions, and changes thereto, must be provided to SFM in writing. Such restrictions may impact performance.

See Item 4 for additional information about SFM's discretionary and nondiscretionary services.

#### **Item 17 – Voting Client Securities**

SFM generally does not vote proxies on behalf of Clients except upon a Client's request. Only upon a Client's request, SFM will have authority to vote proxies. In such cases, SFM will vote proxies in a manner that it believes will best maintain shareholder value. SFM has adopted general guidelines for voting proxies. These guidelines are not necessarily determinative in all cases and SFM may cast votes contrary to the general guidelines, should the facts and circumstances warrant. In all cases, SFM will, in good faith, vote the proxies in the advisory Client's interests. A non-exhaustive list of the general guidelines is summarized below:

- A. SFM should give great weight to the recommendations of the company's management so long as the ratification of the management's position would not adversely affect the investment merits of owning that company's shares.
- B. SFM supports an independent board of directors and prefers that key committees such as audit, nominating, and compensation committees be comprised of independent directors.
- C. SFM opposes ratification of auditors when there is clear and compelling evidence of accounting irregularities or negligence attributable to the auditors.
- D. A company's equity-based compensation plan should be in alignment with the shareholders' long-term interests.
- E. SFM opposes anti-takeover measures.

- F. SFM opposes dual-class capital structures to increase the number of authorized shares where that class of stock would have superior voting rights.
- G. SFM supports management's position relating to social, environmental and ethical issues unless SFM believes that supporting the position will materially and adversely affect the economic interests of its advisory Clients.

To date, SFM has not identified any conflicts of interest between its client interests and its own interest within its proxy voting process. If a conflict does arise, SFM's Chief Compliance Officer will determine the most appropriate course of action. SFM does not currently utilize third-party voting services. In the event SFM does not exercise proxy-voting authority over securities, the obligation to vote proxies rests with the Client. A copy of our complete proxy voting policy and how we have voted can be obtained by contacting SFM at the address or phone number on the cover of this Brochure.

#### **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about SFM's financial condition. The Firm does not require prepayment of more than \$1200 in fees six months or more in advance. SFM has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of any bankruptcy proceeding.