

## **DISCLOSURE BROCHURE**

February 2014

*This brochure provides information about the qualifications and business practices of ITS Asset Management, L.P. ("ITS"). ITS is a registered investment advisor with the Securities and Exchange Commission ("SEC"). Registration with the SEC does not imply a certain level of skill or training.*

*If you have any questions about the contents of this brochure, please contact us at the telephone number listed above or via electronic mail directed to [sales@itsconnect.com](mailto:sales@itsconnect.com). Additional information about ITS is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

*The information in this brochure has not been approved or verified by the SEC or by any state securities authority.*

## Material Changes

### Initial Filing

ITS's initial filing of its Form ADV Part 2A Disclosure Brochure ("Brochure") was dated February 2012, and was prepared in accordance with the disclosure and formatting guidelines adopted by the SEC. The Brochure replaced our Disclosure Statement document that had been provided to clients and prospective clients for many years.

### Future Amendments/Filings

ITS will amend its Brochure promptly for any material change in connection with *Disciplinary Events* via an interim amendment and deliver a detailed notice of the material amendment to all clients. Otherwise, for other material changes to the Brochure since the last annual update of the Brochure, ITS will file a **Summary of Material Changes**, as a separate exhibit to its Brochure. This filing will be done with ITS's annual updating amendment in February each year. ITS will provide all of its clients, with active status at the time of the filing, a copy of the Summary of Material Changes. If the only changes made to the Brochure throughout the year are *non-material* interim or annual updates, neither a Summary of Material Changes nor a Brochure will be distributed to clients that year.

This Brochure, dated February 2014, represents an updated version of our initial filing referenced above and contains non-material amendments only. For your convenience, the following list highlights the sections of the Brochure that contain changes. Refer to the Table of Contents to locate the specific sections.

- **Advisory Business**—Reference to Pershing as an available custodial investment platform has been removed; ITS assets under management amount was updated.
- **Fees and Compensation**—An explanation of why a transaction fee could apply, following a client-initiated transfer between custodial investment platforms, was added in the *Investment, Custodial & Regulatory Costs/Charges* section.
- **Code of Ethics, Participation or Interest . . . (cont.)**—ITS Privacy Policy (January 2014) replaces ITS Privacy Policy (January 2013).
- **Review of Accounts**—This section has been expanded to include a description of operational account reviews conducted by ITS.
- **Client Referrals and Other Compensation**—The *Subadvisory Relationships* section has been updated to remove an inactive arrangement and add a newly established arrangement.

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## Advisory Business

### Brief Firm History

ITS has been in the investment advisory or “asset management” business since 1970. The firm originated as Investment Timing Services, Inc., a Pennsylvania corporation, and has been registered with the Securities and Exchange Commission since February 1971. ITS, now a limited partnership, has grown substantially since that time. Where we once served only clients in the Pittsburgh, PA vicinity as well as a few other cities, we now provide management services to thousands of clients nationwide. Our asset management strategies and the technologies we utilize have also evolved, adapting to the ever-changing investment and regulatory markets. Jon W. Erdner, who joined the firm’s sales and marketing force in 1976, became the sole owner of ITS in 1988 and remains the principal owner today. In addition to overseeing the general operation of ITS, Jon chairs the firm’s Investment Advisory committee, providing a wealth of research, insight, and industry experience.

### ITS’s Management Strategies

ITS offers five management programs each with a preset “style” or approach to the investment markets. This enables ITS to accommodate clients who have differing risk tolerances and investment objectives as determined by the client and his/her personal financial professional. The strategies are shown at right:

- ***Asset Analyzer II***
- ***Premier Asset Analyzer***
- ***Global Exchange Allocator***
- ***Capital Trends Analyzer***
- ***Capital Income Plus***

The ***Asset Analyzer II*** or “AAII” is also referred to as the “dynamic” strategy, as the percentage of portfolio assets assigned to either equity or fixed income investments may be adjusted upward or downward in response to ITS’s analysis of market outlooks at our quarterly reallocation. This program offers conservative, moderate, or growth-oriented portfolio options. The ***Premier Asset Analyzer*** or “PAA” and the Global Exchange Allocator or “GEA” are ITS’s “strategic” programs in that portfolio assets may be rotated between selected sectors, or a sector(s) could be eliminated in favor of a more promising sector(s), based on ITS’s outlook for the markets and the underlying sectors at our quarterly reallocation. Our ***Capital Trends Analyzer*** or “CTA” may be considered a “tactical” strategy in that short-term adjustments may be made to the portfolio’s equity or fixed income exposure rather than on a scheduled, quarterly basis. Finally, our ***Capital Income Plus*** or “CIP” is an “income” program utilizing primarily fixed income investments, and an optional satellite equity position, with a focus on income generation.

ITS utilizes mutual funds as the investment vehicle of choice in our AAII, PAA, CTA, and CIP managed portfolios. Mutual funds offer diversification and exposure to many investment styles, asset classes, and market sectors. The management team of an individual mutual fund typically concentrates in specific areas of investment. For example, managers of a natural resources fund will research several, sometimes hundreds of companies in the mining, timber, oil, and other related natural resources industries prior to investing in the companies that meet their due diligence standards. Thus, by using mutual funds, ITS is able to leverage the expertise of the fund managers in their area of specialization to fill desired areas of exposure in our managed portfolios.

ITS’s newest program, GEA, utilizes exchange-traded funds (more commonly known as “ETF’s”) as the primary investment vehicle. While ETF’s also offer diversification and exposure across various investment styles, asset classes, and market sectors, an ETF may be considered a more passively-managed investment when compared to a mutual fund. In most cases, constant readjustments to an ETF’s underlying holdings do not occur. Rather, an ETF, by design, typically holds a static selection of securities compiled for the purpose of tracking or mirroring the performance of a market index. GEA may, from time to time, hold direct exposure to a specific commodity (i.e. a physical product or resource) rather than indirect exposure through the stocks of companies involved in the production or processing of that commodity. For example, GEA could hold an ETF with exposure to gold, the metal itself, with assets backed by the metal, rather than an ETF investing in the stocks of various gold mining companies.

## Advisory Business (cont.)

### Portfolio Design

ITS follows its “Disciplined Active Portfolio Management” or “DAPM” formula in each of its strategies to combine the flexibility of an active management approach with the discipline of a structured portfolio framework. Client assets are invested in accordance with the structured portfolios ITS has designed for each strategy. Each portfolio adheres to a disciplined “framework” that is comprised of the four key elements shown below:

- 1) investment types
- 2) asset allocation range
- 3) number of sector “positions”
- 4) transaction frequency

Investment types refers to the kind of funds utilized in the portfolio (i.e. stock or equity funds, bond or fixed income funds, commodity funds, or money market funds). Asset allocation range controls what percentage of the portfolio is held in equities vs. fixed income funds. Sector positions

delineate the portfolio’s diversification among a limited number of different market sectors, which varies between each ITS strategy. Some examples of fixed income market sectors are: corporate, government, high yield, and municipal. Examples of equity market sectors are: financial, industrials, large cap, precious metals, and technology. Finally, transaction frequency refers to how often ITS conducts reallocation trading in the portfolio.

Working hand-in-hand with the disciplined framework of each managed portfolio is the active or “adaptive” component of our DAPM approach. There are also four key elements that comprise this component, shown at right:

- 1) proprietary research and analysis
- 2) asset/sector selection and weighting
- 3) fund selection
- 4) portfolio rebalancing and reallocation

ITS reviews both technical and fundamental data as well as following a variety of economic and market indicators in the U.S. and abroad in its research and analysis processes. We then apply our research to the particular strategy’s portfolio framework in determining the investment types and weighting as well as the sectors to utilize. Next, we screen and rank the available individual funds within the sectors, as determined by the investment platform being utilized, prior to making the portfolio’s fund selections. Portfolios are reviewed for rebalancing or reallocation changes on a quarterly or market-driven basis, depending on the strategy.

### Custodial Arrangements

ITS’s advisory services may be utilized with accounts held at select custodial investment platforms. Currently available platforms include, but may not be limited to those shown below. There is no affiliation between the independent custodial platforms and ITS. Oversight of these custodial entities is conducted by their respective state and/or federal regulators.

These platforms were selected by ITS based on their ability to meet the criteria necessary for ITS to administer its managed strategies effectively and in a manner that takes into consideration the best interests of our clients. One important factor common to all of the listed platforms is that each offers a large universe of thousands of available mutual funds (hundreds of ETF’s on the Fidelity platform) covering a wide variety of market sectors and styles. This means that ITS can allocate portfolios towards the market sectors that we favor as we diversify a client’s account in accordance with the strategy selected by the client. Perhaps the most attractive feature of the approved investment platforms are the minimal investment and trading costs to the client. When using mutual funds, ITS has the ability to focus on selecting only no-load or load-waived funds, so there are no sales charges to the client upon investment. Additionally, focus is placed on selecting no-transaction-fee or transaction-fee-waived funds. This results in no fees charged to the client when ITS conducts its program trading

- **Constellation Trust Company**
- **Fidelity Institutional**
- **Millennium Trust Company**
- **Trust Company of America\***

*\*participant-directed 401(k) plans only*

## Advisory Business (cont.)

(buying and/or selling shares of individual funds) to allocate, reallocate, or rebalance a client's account in accordance with the ITS strategy selected by the client. When using ETF's, sales loads are not applicable, and ITS pays the ETF trading costs associated with ITS program buys/sells that would otherwise be charged to clients. There are also a limited number of ETF's that assess no trading costs that may be selected for use by ITS following our fund rating/ranking procedures.

### Account Minimums

In order for a client to engage the services of ITS for management of his/her investment assets, each of the client's accounts *on an individual basis* must meet our minimum account size of \$30,000 in the AAI, PAA, CTA, or CIP programs. The minimum is the same regardless of the custodian chosen. Individual accounts must meet the \$100,000 minimum for the GEA program.

The per-account minimum stated above is not applicable to the accounts of individual participants in employer-sponsored SIMPLE IRA plans or 401(k) plans. The minimum for SIMPLE IRA accounts is \$5,000. The minimum for 401(k) plan participant accounts is \$500. Participants in these plans must wait until their account balance reaches the minimum applicable to their type of account before they can elect ITS management. (All account types in the GEA program must meet the \$100,000 minimum.) ITS's managed portfolio services are available to 401(k) plans at select investment platforms only; an overall plan size minimum may apply.

### Non-Customized Advisory Services

As described earlier, ITS's management strategies each offer a preset approach to the investment markets using managed portfolios comprised of mutual funds and/or ETF's. ITS's buy and sell decisions for the managed portfolios are made with a focus on the primary objectives of the individual strategy. Each strategy offers a unique set of proprietary investment techniques designed for increased performance potential and reduced investment risk within the portfolio's given range. ITS's "DAPM" formula described earlier guides the investment decisions made within each of our strategies. Thus, our portfolio management services are not considered "investment supervisory" services and are not customized or tailored to the particular or individual needs of any client. All clients using the same ITS strategy at the same investment platform will generally have identical portfolio holdings—the same percentage allocation to the same underlying funds. (Certain factors, such as fund closures, fund holding periods, or qualified/non-qualified status could result in differences in account holdings between some clients.)

Oftentimes, the client's financial professional may obtain personal and financial information from the client through an interview and/or the completion of a "profiling" or suitability questionnaire. The financial professional may use the information gathered to help guide the investment planning and selection process for the client. The information may also be used by the financial professional to assist the client in selecting an ITS management strategy. ITS, however, does not require, request, or review any questionnaires that may have been completed for these purposes. As stated above, ITS formulates its investment advice around the strategy's discipline and objectives rather than around individual client financial circumstances or obligations.

Other than placing *reasonable* restrictions on their accounts, often to accommodate periodic cash flows, clients leave the investment decisions to ITS. In other words, ITS has "discretionary" authority in connection with client accounts. This simply means that ITS is not required to obtain a client's consent prior to each buy or sell of a particular security, or prior to determining the allocation amount to each security that will be purchased or sold for the managed account (see also *Investment Discretion*, page 21). ITS may exercise its authority to replace a fund(s) or market sector used within any of its managed portfolios, at our discretion, at quarterly program reallocations or on a market-driven basis, depending on the ITS strategy being utilized. At times, it may be necessary for ITS to replace funds that have become restricted or no longer available for use in managed portfolios.

## Advisory Business (cont.)

ITS exercises only a *limited* discretionary authority which is used only for purposes of managing the assets of the client in accordance with the ITS strategy preselected by the client and the custodial investment platform agreed to by the client. Only the client can authorize a change in custodian or management strategy. Other than the trading, advisory fee liquidation, and limited cash movement authorizations (facilitation of redemptions/withdrawals to client address of record) granted by the client to ITS via the custodial account forms, ITS conducts no other buying or selling nor makes any other investment decisions on behalf of the client.

### Independent Data Management Provider

ITS uses Orion Advisor Services, based in Omaha, NE, as an independent provider of data management services. Orion is the “conduit” that links ITS with client account data provided from the client’s account custodian via secure electronic transfer. Orion provides access to current account information such as daily account values and holdings, as well as storing the historical transaction data for client accounts. The technology provided by Orion enables ITS to perform necessary functions including trading and trade verification, advisory fee billing, performance computation and account reporting, among others. Orion has stringent controls in place to support the security of client account information and the accuracy of its data management and computational functions. On an annual basis, the operational effectiveness of Orion’s systems are reviewed by an independent auditor, and Orion makes this report available to ITS.

### Assets under Management

Discretionary assets under management total approximately \$571,815,000.00. This represents managed assets in all ITS strategies across all custodial investment platforms. The total assets amount is based on the market value of the managed accounts as of February 20, 2014. The total assets amount is impacted not only by new or cancelled accounts, but also by daily fluctuations in the market value of the assets.

## Fees and Compensation

### Advisory Fees

ITS is compensated for the investment advisory (i.e. portfolio management) services it provides to its clients through an advisory fee charged to the clients. The fee is calculated as a percentage of the total asset value of the client’s ITS-managed account.

#### Current Fee Schedule

The fee shown below is the *maximum* ITS annual advisory fee, regardless of account size, at all investment platforms where the indicated strategy is available.

	AAIL, PAA, GEA, CTA strategies	CIP strategy
All types of individual, business, self-directed (401k, 403b, etc.) and sponsor-directed (401k, PSP, DBP, etc.) retirement accounts	2.00%*	1.00%*
Participant-directed 401(k) plans	Fee ranges from 1.00-1.40% based on custodial and administrative arrangement selected for qualified plan, plan asset size, and number of participants. TCA platform only.	

\*Fee shown is total ITS fee to client. There is no additional charge from ITS for solicitor fee payment to client’s financial professional.

## Fees and Compensation (*cont.*)

At the present time, the annual advisory fee rate may vary among ITS's current clients using the same ITS strategy. While ITS's fee schedule has undergone adjustments over the years as new investment platforms became available, no fee increase was ever passed on to an established account. One thing has remained unchanged over the years—our maximum annual advisory fee to our clients has never exceeded 2.00%.

Variation in the fee rate among clients as mentioned above may result from factors such as the account's inception date at ITS, account or household asset size, whether the account is an ITS employee or solicitor account eligible for a reduced rate, or if it participates in an employer-sponsored retirement plan (where advisory and other fees may vary from plan to plan). There are also other factors that may impact the advisory fee rate such as special arrangements negotiated between ITS and outside strategic partner firms that refer clients to ITS. Clients can refer to their copy of the ITS disclosure materials or ITS New Account Application that was provided for their records if they are unsure of the annual advisory fee rate being assessed on their managed account. Clients may also review their account statement provided directly by the custodian (i.e. Fidelity, Constellation, etc.) which will include an entry for the quarterly advisory fee deduction, from which the annual rate may be calculated. Clients may also contact their financial professional or ITS directly for this information.

While ITS's advisory fee is generally not negotiable, consideration may be given in select circumstances based on account size or other factors at the discretion of ITS. Additionally, some flexibility (limited to specific platforms) is built into the current fee schedule for AAIL, PAA, and CTA accounts valued at \$100,000 and above, and for GEA accounts valued at \$500,000 and above. On these accounts, the client's financial professional may, at his/her discretion, elect to reduce the solicitor fee reallocation he/she receives from ITS in accordance with fee reallocation guidelines established by ITS. The fee reduction is passed on directly to the client, effectively reducing the annual advisory fee rate. More information about the relationship between ITS and solicitors (i.e. financial professionals who refer their clients to ITS) is provided to the client in the Solicitor's Separate Disclosure Statement. This document is included as an integral part of the ITS New Account Application and requires acknowledgment and signature of the client. (Additional information may be found under the section entitled *Client Referrals and Other Compensation*, beginning on page 18 of this Disclosure Brochure.)

In certain cases where a retirement plan sponsor makes ITS's advisory services an available option to the plan's participants, some of the participants may choose to "direct" or make their own investment choices for their individual plan account assets rather than elect ITS's management services. At select investment platforms only, ITS provides a *limited* advisory service to these participants. The limited service consists solely of providing a listing detailing a diversified selection of mutual funds from which the self-directing participants, at their discretion, may make investment selections. ITS conducts an annual review of the fund selection and, at its discretion, may add or remove funds as investment options if warranted. ITS charges a reduced advisory fee for the limited advisory service.

### Payment of Advisory Fee

ITS's advisory fee is paid through automatic liquidation (redemption of shares) from the client's account. The fee is assessed on a calendar quarterly basis, either in advance or in arrears, dependent on the custodian selected by the client. Therefore, the advisory fee amount liquidated each quarter, and appearing on the client's custodial account statement, is calculated at a rate of one-quarter of the annual rate indicated on the client's ITS New Account Application (or in accordance with the schedule of fees agreed upon for the retirement plan). Through the automatic fee liquidation process, the custodian of the client's account collects and distributes the advisory fees to ITS. To maintain sufficient liquidity for the advisory fee deduction, a 1% money market allocation may be maintained in the client's managed account, where applicable.



## Fees and Compensation (*cont.*)

The following table shows the procedure followed in the deduction of the ITS advisory fee from the client's account once the client's assets to be managed are received (either by transfer to or new investment) at the custodial investment platform selected by the client:

	<b>Fees Assessed in Advance</b>	<b>Fees Assessed in Arrears</b>
New Account— Received Intra-Quarter:	Fee prorated to end of calendar quarter is deducted immediately based on value of asset transfer to or new investment at custodial platform	Prorated fee for the quarter is deducted within the first few weeks of following quarter and may be based on account's daily balance accrual method, an average daily balance, or balance on last business day of preceding quarter—dependent on custodian being utilized
Established Account— Full Quarter:	Full quarterly fee is deducted within the first few weeks of the current calendar quarter and is based on account's value on last business day of preceding quarter	Full quarterly fee is deducted within the first few weeks of following quarter (see above for account balance calculation methods)
Addition/Deposit to Account	Fee prorated to end of calendar quarter is deducted immediately based on value of addition/deposit	Prorated fee for the quarter is deducted within the first few weeks of following quarter (see above for account balance calculation methods)

### Refund of Advisory Fee

A client of ITS may cancel the advisory services of ITS at anytime so desired. If a client decides to cancel within five business days after signing the ITS Client Agreement, a written request must be provided to ITS, and no advisory fee will be assessed to the client. Otherwise, the ITS Client Agreement will remain in effect until either party (ITS or client) to the Agreement receives written notice from the other to cancel the Agreement. Requests to cancel must be accompanied by the client's signature and will not be processed solely on the request of the client's financial professional.

When a cancellation request is received, ITS's advisory fees are accrued to the date of receipt of the request. On accounts where the fee is prepaid or liquidated in advance, the fee is refunded on a prorated basis through the date of receipt of the cancellation request. On accounts where the fee is paid or liquidated in arrears, a prorated fee, assessed for the period that advisory services were provided through the date the cancellation request was received, will be deducted from the account balance prior to cancellation. In relation to partial withdrawals from active accounts, no adjustments to prepaid fees are made for monies withdrawn during the advisory fee period.

### Investment, Custodial & Regulatory Costs/Charges

As indicated in the *Advisory Business* section of this Disclosure Brochure, one of the key reasons for ITS offering its managed portfolio strategies at select institutional brokerage platforms is the ability to offer minimized costs to our clients. Because ITS's methods work to select no-load or load-waived mutual funds, sales charges to the client can be eliminated on the initial investment or subsequent purchases or sales. Additionally, because our methods are designed to utilize no-transaction fee mutual funds, and to pay on behalf of our clients the transaction fees assessed by ETF's applicable to each ITS buy or sell, accounts of our clients are generally free from any charges related to the implementation of our strategies. (On client-initiated transfers from one investment platform to another, it is possible for a transaction fee to be assessed at the new platform on a fund(s) that was held at the prior platform and on which no transaction fees applied. This is due to differences in the "no-transaction-fee" or "transaction-fee" status of the fund(s) at the respective platforms. ITS is not liable for transaction fees assessed as a result of a transfer between investment platforms.)

## Fees and Compensation (*cont.*)

Mutual fund and ETF investors, including clients of ITS, are subject to the internal management expenses of the funds which are reflected in the price of a fund's shares. Certain mutual funds may also levy short-term redemption fees—fees charged when fund shares are sold within a relatively short period after having been purchased. ITS has no control over nor does it share in the receipt of any part of these expenses or fees. The fact that certain funds may levy short-term redemption fees does not exclude them for consideration in ITS portfolios, as the funds may merit inclusion based on other factors considered by ITS when making fund selections. In most cases, redemption fees are not an issue for ITS clients due to ITS's internal procedures and controls relating to portfolio allocations during the calendar quarter, as well as the fact that ITS's strategies do not incorporate frequent or excessive trading into and out of individual funds. However, redemption fees could be assessed by certain mutual fund companies as a result of *withdrawals made or requested by the client* if 1) part or all of the assets needed to satisfy the redemption amount is held in a fund that levies redemption fees, and 2) the fund has not been held for the required time period.

Other specific fees that may be charged by the custodian of client accounts are transfer fees, wire fees, bounced check fees, and account termination fees. One situation when charges may apply is when a client's assets [to be managed by ITS] are held in individual securities (i.e. stocks, bonds) at the time of their transfer to the brokerage platform to be used in conjunction with the AAIL, PAA, CTA, or CIP programs. The individual securities must then be sold by ITS and the proceeds invested in the mutual funds comprising the ITS managed portfolio selected by the client. The custodian may assess a "ticket charge" to the client on this trading activity. (Transfers-in-kind of this type are not available upon entry into the GEA program. Securities must be sold to cash prior to investment at Fidelity.) Accounts of individual participants in employer-sponsored 401(k) retirement plans may also be subject to custody charges in addition to administrative/recordkeeping charges. ITS has no control over nor does it share in the receipt of any of these custodial charges or fees.

The government also assesses and charges investors a regulatory fee on sales of covered equity securities such as ETF's. While the fee is only a few cents per \$1,000 of the principal sale amount (the fee rate may be adjusted annually or semi-annually), all securities exchanges are required to pay this fee to the SEC based on the volume of all covered securities sold on the exchanges. The fee is used by the SEC to recover the costs incurred for supervising and regulating the securities markets and securities professionals.

Prospective investors and clients should not hesitate to ask their financial professional to explain any possible charges relative to their investments.

### Other Compensation

ITS provides services as an Investment Advisor only and does not operate as a broker or dealer in buying or selling securities for compensation. Neither does ITS hold a proprietary interest in any of the funds it selects for use in its managed portfolios. As described in this Disclosure Brochure, ITS makes its management strategies available for new business at select institutional brokerage platforms where we can build our managed portfolios from a broad universe of mutual funds and ETF's while keeping investment costs minimized for clients.

ITS receives an advisory fee for its services, and those financial professionals who recommend our services to their clients are compensated by ITS through a solicitor's fee. Neither ITS nor the financial professional receive any type of brokerage compensation (i.e. mutual fund commissions, trails) from the currently available institutional brokerage platforms in connection with providing or recommending the ITS advisory services to clients. This is true regardless of whether the financial professional is an outside, third-party solicitor or an in-house, supervised employee of ITS. (See also *Client Referrals and Other Compensation*, beginning on page 18, for more information.) Essentially, no conflict between the interests of the client and those of ITS and/or the financial professional is created in relation to the use of the available institutional platforms. This is because no monetary

## **Fees and Compensation (*cont.*)**

incentive (i.e. fund ownership interest, commissions, trails) exists to promote, recommend, or sell any particular fund(s) in connection with ITS's managed portfolio services.

Prospective clients may invest in the same or similar funds as utilized by ITS in its managed portfolios through other brokers or financial professionals who do not work with ITS. It is possible that the charges or fees to the client may be less than those related to ITS's services. However, it is also important to note that in many cases purchases may not be load-free, and transaction fees or other charges may apply when buys or sells are made within the client's account. Once again, prospective investors and clients should not hesitate to ask their financial professional to explain any possible charges relative to their investments.

## **Performance-Based Fees**

Neither ITS nor its supervised persons charge or are compensated via performance-based fees.

## **Types of Clients**

ITS provides its advisory services to various types of clients including individuals, corporations, pension and profit-sharing plans, and charitable organizations. The vast majority of ITS-managed accounts are those of individuals. These include various types of retirement accounts such as IRA's, SEP's, 403(b)'s, 401(k)'s, etc., but also include accounts such as estates and trusts.

### **Services Provided to ERISA Retirement Accounts**

ITS provides its advisory services to client accounts regulated under ERISA (Employee Retirement Income Security Act). These accounts are typically qualified retirement plans established and maintained by a sponsor employing firm and include accounts such as 401(k) plans, pension plans, profit-sharing plans, 403(b) plans, among others. As a fiduciary, ITS is entrusted to place the interests of its clients, including retirement plans and their participants, before its own interests. In doing so, ITS is obligated to avoid conflicts of interest, and to perform its management duties prudently and fairly in a manner designed to benefit its clients.

Essentially, the advisory services provided to ERISA accounts are the same services as provided to non-ERISA accounts—providing a selection of investment strategies utilizing model portfolios designed and managed in keeping with our DAPM formula rather than on a client-customized basis (see description of *Advisory Business*, pages 4-7). ITS does provide an optional limited service to the participants of certain plans for a reduced fee (see paragraph four, page 8). Otherwise, ITS provides no other services to retirement plans or sponsors in relation to 1) legal or administrative structuring or setup of the plan, 2) consultations, selection, or monitoring with respect to other service providers, managers, etc., to the plan, or 3) accounting, recordkeeping, or tax-related computations or reporting.

ITS does not market its advisory services directly to the retirement plan marketplace but, as with non-ERISA accounts, obtains ERISA accounts through the presentation of ITS's services by independent financial professionals. ITS may occasionally participate in participant enrollment meetings to assist the financial professional in the presentation of ITS's services; however, it is the employing firm or plan sponsor that is obligated to organize and coordinate such meetings for plan participants.

ITS currently provides its services to retirement plans where, depending on the structure of the individual plan, the services were elected by 1) the plan sponsor for the total plan assets, or 2) the plan sponsor as a managed services option for participants to elect individually, or 3) the individual participant where the sponsor assumes no involvement in the selection of investment options for plan participants. Also dependent on the plan, either the financial professional or an independent plan

## Types of Clients *(cont.)*

consultant engaged by the plan sponsor assumes the responsibility to evaluate the financial needs of the plan and/or participant and determine whether ITS's strategies are (and remain on an ongoing basis) an appropriate and suitable option. A plan sponsor that is involved in the selection of ITS in an asset management capacity for the plan retains the fiduciary responsibility for the ongoing monitoring of ITS's performance, and reserves the authority to terminate the services of ITS for the plan and its participants.

Certain plans contain "automatic enrollment" and "opt out" provisions in relation to managed services options such as ITS. This means that, if the plan sponsor selected ITS as an approved managed services option to the plan, participants are automatically enrolled into a designated ITS strategy based on their age. The participant then has the ability to change the assigned strategy or opt out of ITS's managed services altogether. By opting out of managed services, the participant can "self direct" or individually make his/her own investment choices in accordance with alternative investment options offered under the plan. Where a participant does not opt out of ITS's services, it remains the responsibility of the financial professional and/or independent consultant to evaluate if and when a change to the assigned, age-based strategy is warranted for the individual participant.

ITS receives direct compensation only from ERISA accounts. This means that ITS is compensated for the advisory services it provides solely through the payment of its advisory fee. ITS receives no indirect or other compensation of any kind in relation to the retirement plan account, such as receipt of 12b-1 fees, soft dollar benefits, or any other type of brokerage, consulting, or service fees. (ITS may receive certain benefits through its business relationship with the brokerage platforms. Please refer to the *Economic Benefits* section, pages 19-20, for more information.)

ITS compensates the introducing financial professional through payment of a solicitors fee. (Please refer to the *Compensation Paid/Payments Made by ITS* section, pages 18-19, for more information on the solicitor fee arrangement and revenue sharing payments made by ITS.) Both the ITS advisory fee rate and the compensation arrangement with the solicitor are disclosed in ITS's account paperwork for completion by the plan sponsor/participant.

## Methods of Analysis, Investment Strategies, and Risk of Loss

As described in more detail in the *Advisory Business* section of this Disclosure Brochure, ITS does not formulate its investment advice based on the specific needs of individual clients. Rather, ITS offers an array of management strategies each with managed portfolios that adhere to a preset portfolio framework. As detailed earlier, the framework allows for a disciplined approach unique to the particular strategy—utilizing complementary (correlating and/or non-correlating) market sectors with market exposure adjusted in amounts designed to meet the investment objectives of the strategy.

ITS's analysts perform both technical and fundamental market research, following a variety of economic and market indicators in the U.S. and abroad on a current and historical basis. Market indicators include sentiment, breadth, trend, momentum, and cycles. Economic indicators include but are not limited to interest rates, inflation, money supply, and central bank policy. ITS's investment analysts use the portfolio framework described above as a template, focusing on the range of available market sectors used within each strategy to ultimately determine the individual fund selections for the managed portfolios. Analysts evaluate criteria such as the fund's net asset size, manager tenure (where applicable), performance history, peer rankings, turnover ratio, expense ratio, as well as fund holdings when making final fund selections.

Investment markets can be volatile and reactive to economic and political events, among other catalysts, and the resulting fluctuations can impact certain market sectors and the funds concentrating in those sectors. ITS continually monitors the markets to determine new target allocations for its portfolios or whether certain portfolio holdings should be eliminated. Through a

## Methods of Analysis . . . (cont.)

quarterly or market-driven approach, account holdings are reallocated and/or rebalanced if warranted to maintain the objectives of each strategy. Frequent trading, which can sometimes have a detrimental effect on performance as well as triggering increased costs to the client, is not characteristic of ITS's management strategies. To the contrary, ITS's disciplined approach is designed with a goal of avoiding emotion-driven investment decisions that can be costly in both lost opportunity and, worse, lost investment capital.

While ITS clients do not receive personalized investment advice from ITS that specifically addresses the client's own risk tolerance or profile, it is important to note that ITS's strategies themselves, along with ITS's management approach, follow ITS's core philosophy of investing in the markets using a risk-adjusted approach aimed toward achieving capital growth. Mutual funds, utilized in ITS's managed portfolios, are generally considered to be relatively lower-risk investments in comparison to other alternatives. This is largely due to their diversification among various stocks, bonds, treasury bills, and other underlying holdings, as well as the expertise of the fund manager who oversees the fund's ongoing holdings. ETF's, also used in ITS's managed portfolios, may also be considered relatively lower-risk investments compared to other alternatives. ETF's are designed to closely track rather than outperform a specific market index. ITS does not utilize leveraged funds in our managed portfolios due to their increased volatility and potential for increased losses.

It is important to note that all investments, including mutual funds and ETF's, are not guaranteed against loss. Prospective investors, including ITS clients, must understand that their investments may lose value in declining markets. In general, equity or stock sectors are riskier than fixed income or bond sectors. Depending on when an investor liquidates or cashes in his/her account, it is possible that he/she could end up with less than the initial investment. This is why it is important for investors to review not only their investment objectives, but their risk tolerance and time horizon, with their financial professional to determine what type or style of investment strategy offers the right fit for their unique situation. ITS provides an informational fact sheet for each of its strategies that provides an overview of the strategy including important disclosure information.

## Disciplinary Information

Investment Advisors are required to disclose legal or disciplinary events that are *material* to a client's or prospective client's evaluation of the Advisor's business or the integrity of the Advisor's management. ITS offers the following summary of an isolated event involving our firm. Whether the event *materially* affects ITS's abilities and integrity as an Investment Advisor remains the opinion of the individual client or prospective client.

In March 2008, the Nevada Securities Division levied a \$47,500 fine on ITS in connection with the referral of 27 clients [38 accounts total], who were Nevada residents, to ITS from an outside, unaffiliated solicitor who was not properly registered in Nevada. At no time was the solicitor an employee or management person of ITS, nor was the solicitor involved in the operational or advisory functions of ITS. Upon completion of the required solicitor registration filing and payment of Nevada's solicitor registration fee, the solicitor was properly registered. None of the 27 clients elected to cancel the services of ITS or their relationship with the solicitor as a result of the event.

## Other Financial Industry Activities and Affiliations

ITS's only business is that of providing services as an investment advisor. We are not in the business of providing services as a consultant to clients, nor do we recommend the services of other advisors for compensation. ITS is not registered as a broker/dealer and does not effect securities transactions for compensation as a broker or dealer. Neither does ITS have an affiliation with another financial

## Other Financial Industry Activities . . . (cont.)

industry firm or entity—such as a broker/dealer, investment company (i.e. mutual fund), insurance company, consultant, etc., nor do any of ITS's management personnel hold a similar position at another financial firm. ITS selects individual mutual funds and/or ETF's for use in its clients' managed portfolios, but neither ITS nor any of its employees or related persons hold an ownership position in the funds that would create an incentive for their recommendation. ITS's efforts are concentrated in one direction only—providing our clients with professionally managed portfolios.

## Code of Ethics, Participation or Interest in Client Transactions, & Personal Trading

### Code of Ethics

ITS places great value on its standing in the financial services industry. A successful firm retains the respect of its peers, competitors, clients, and prospective clients. To that end, ITS expects the highest ethical standards from all employees. Such standards of conduct and character include honesty, integrity, competency, and willingness to work together in providing the best possible service to our clients. To create a culture of compliance to such standards, ITS has adopted a Code of Ethics which is provided to all individuals upon employment at ITS. All employees must provide signed acknowledgment that the Code has been reviewed and the contents understood without question.

ITS's Code of Ethics acknowledges the general principles of conduct befitting the firm's fiduciary obligation to place the interests of our clients first. The Code defines both "nonpublic" client and firm information, the limitations on its use, and prohibits employees from acting on the information for their own or another's financial interest or gain. The Code also recognizes the duty of all employees to provide to the ITS Compliance Department information regarding reportable personal securities holdings and transactions in those holdings. ITS reviews the personal account information provided for any activity that breaches our ethical conduct guidelines.

ITS will provide a copy of its Code of Ethics to any client or prospective client on request.

### Privacy Policy Notice

ITS strives for complete customer satisfaction, which includes respecting our clients' right to privacy. Because we value the trust and confidence of our customers, we are committed to the management, use, and security of nonpublic personal information gathered from potential, existing, and former customers. ITS values its clients and wants to clarify why we collect client information and how that information is used. This section explains our practices and policies for handling personal client information and describes our commitment to protecting the information provided to us. As our management services continue to evolve, it may be necessary to review and revise our Privacy Policy. ITS will provide all customers with a copy of our most current privacy policy on an annual basis.

Collection of Nonpublic Customer Information - We gather and maintain nonpublic personal information only as is necessary for us to provide and administer our management services to our clients. Most information we collect is obtained directly from clients on our account applications or other forms submitted to our firm by the client's financial professional or his/her supervisory firm. This information may include basic identifying information such as name, address, tax identification number, telephone number, date of birth and other information. Additional information regarding securities transactions may be obtained from the custodian of the client's account in order to administer only those assets placed under our management.

Disclosure of Nonpublic Customer Information - ITS does not disclose or share nonpublic customer information with anyone or any firm except as permitted by law. ITS does not use customer information for any purpose other than to open and maintain the client's managed account, to facilitate transactions, and to comply with current regulatory reporting requirements. ITS uses

## Code of Ethics, Participation or Interest . . . (cont.)

various technologies made available to us by private companies in order to achieve these purposes. These private companies, including data management, data storage, compliance consulting or auditing firms, as well as the financial industry regulatory bodies (i.e. Securities and Exchange Commission; FINRA) are or may become a party to some or all of the information we maintain. On written request by a client's financial professional, ITS may disclose the client's nonpublic information to a non-affiliated third-party vendor, so that the financial professional may access the information via data aggregation or financial planning software. If a client prefers that ITS not disclose personal and account information to non-affiliated third parties, the client may opt out of those disclosures (other than disclosures permitted by law). If a client wishes to opt out, he/she may send written notice to ITS. ITS will maintain the same standards of privacy after a client relationship has ended and will only disclose information about former customers as described in this privacy policy.

Confidentiality and Security of Nonpublic Customer Information - ITS dedicates significant resources to protect the security of your information. We use physical, electronic, and procedural safeguards to maintain the integrity of client information and guard against its unauthorized use. All ITS employees are required to follow our privacy procedures to ensure that client nonpublic information is handled properly and used only for authorized purposes.

Customer Access to Nonpublic Information - A client may write to us if he/she has any questions about the information that we may have in our records about the client. Questions concerning ITS's privacy policy may be directed to the Compliance Department of our firm.

### Participation or Interest in Client Transactions

The purpose of this section of the Disclosure Brochure is to address any conflicts between the interests of ITS and those of our clients in relation to ITS-initiated transactions in client accounts. As discussed previously, neither ITS nor any of its employees hold a financial interest in any mutual fund or ETF recommended by our firm for use in client accounts. Thus, no conflict of interests results from any fund selections made by ITS. Neither are ITS or any of its employees compensated as a direct result of buy or sell trades effected at the direction of ITS in client accounts.

ITS and/or its employees are permitted to invest in the same mutual funds or ETF's selected for use in client accounts. While mutual funds are non-reportable securities holdings, ITS does require its employees to report holdings and transactions in reportable securities including ETF's. Where ITS and/or employee accounts are placed under the management of ITS, the accounts receive the same investment advice (i.e. sector and fund selections, program trade instructions) as client accounts utilizing the same ITS strategy investment model and investment platform. Rebalancing and/or reallocation trading is conducted in tandem with trading in client accounts.

## Brokerage Practices

### Research and Other Soft Dollar Benefits

A "soft dollar benefit" occurs when brokerage commissions (resulting from buy or sell trade execution) paid by investors are used by the financial firm receiving the commissions to pay for the cost of obtaining research, products, or services for the benefit of the firm.

ITS is not registered as a broker/dealer and does not receive brokerage commissions. Neither does the client's financial professional receive brokerage-type compensation as a result of business placed under the management of ITS on the available investment platforms. Thus, there is no "soft dollar incentive" to recommend any one of the available investment platforms over another. ITS offers its advisory services at institutional investment platforms using mutual funds or ETF's where sales loads and transaction fees resulting from program trades are either not assessed or are not passed on to our clients. Clients are, however, subject to the internal expenses associated with investment in

## Brokerage Practices (*cont.*)

mutual funds and ETF's such as expense ratios, 12b-1 fees, etc. These expenses may vary based on the fund selection available on each investment platform.

ITS pays for the research, products, and services it requires in the operation of its business. ITS may, however, receive certain benefits through its business relationship with the investment platforms. These are described in the *Economic Benefits* section, pages 19-20, of this Brochure.

### Brokerage for Client Referrals

ITS does not obtain client referrals from the investment platforms where our services are available. Thus, there is no "client referral incentive" to ITS for offering its services at these platforms.

### Best Execution—Directed Brokerage & Trade Aggregation Practices

As an investment advisor, ITS has a duty to act in the best interests of its clients. This includes the duty to seek "best execution" for brokerage transactions in client accounts. Often, the first thought at the mention of best execution is that it means obtaining the lowest commission rates and best prices for client securities transactions. However, many other factors contribute to producing favorable securities trading terms. This section will help to explain how best execution relates to the ITS strategies and trading processes.

First, it is necessary to understand the difference in pricing between the two types of securities ITS utilizes in its managed portfolios:

Mutual Funds — Mutual funds are priced once per day at market close, meaning that all buys or sells of any particular mutual fund on any given day receive the same price.

Exchange-Traded Funds (ETF's) — ETF's are priced throughout the day, meaning that buys or sells of any particular ETF on any given day can receive widely differing prices depending on the time of day the trade is executed.

Next, trading practices such as "directed brokerage" and "trade aggregation" can each play a key role in determining trading costs and prices obtained for clients. These practices are more applicable to trading in ETF's rather than mutual funds due to the ever-changing intraday pricing of ETF's. For instance, by directing trades to a specific broker/dealer, overall execution costs to clients are based on that firm's ability to access various markets to obtain competitive pricing, fill the trade order efficiently, and execute the trade on a timely basis. A wide variance in cost can result based on the brokerage firm selected. Additionally, trade aggregation (grouping or bunching of trades) procedures can also impact transaction costs to clients, while the sequence of unbunched trades can result in different pricing among clients.

Generally speaking, ITS's PAA, AAI, CTA, and CIP strategies are insulated from best execution concerns. This is due, in part, to their predominant use of mutual funds as the underlying investment vehicle and the once-per-day pricing of mutual funds as described above. Additionally, ITS focuses on selecting only funds where loads and transaction fees are not assessed. Thus, both timing and grouping of trades are virtually a non-issue. As discussed in the *Custodial Arrangements* section, page 5, of this Disclosure Brochure, an array of custodial investment platforms are available for use with the PAA, AAI, CTA, and CIP strategies. The selection of custodial brokerage platform to utilize in conjunction with ITS's services is always made by the client with the assistance of the client's financial professional. Thus, ITS clients are effectively directing brokerage transactions relative to their ITS-managed account to the chosen brokerage platform.



## Brokerage Practices (cont.)

The issue of best execution may be considered more applicable to ITS's GEA strategy. GEA invests primarily in ETF's which, as noted above, are bought and sold at varying intraday prices. The price spread for a single ETF on any given day can be substantial, making market access and trading efficiency important features when buying and selling ETF's. Most ETF's also assess a transaction fee on any trade into or out of the fund. Thus, ITS maintains ETF trading procedures that focus on our best execution duty to our clients. One way that we do this is by making the GEA available at the Fidelity institutional brokerage platform, effectively directing all brokerage related to GEA to Fidelity. It is our belief that Fidelity maintains trading policies and procedures that further support and enhance our best execution goal. Some of the factors that contribute to our selection of Fidelity include, but are not limited to:

- The availability of hundreds of ETF's across a wide variety of market sectors and styles
- Technology providing access to client account data as well as the functionality to implement the ITS GEA within client investment accounts
- Trading desk access to various markets
- Technology for efficient and timely execution of trades
- Accuracy in pricing, account recordkeeping
- Responsiveness and service in addressing trade execution issues or errors
- Reporting on trade execution within accounts to ITS and clients

Internal trading procedures and specialized software utilized by ITS enable efficient buys, sells, and allocations of ETF shares within client accounts, resulting in block trade identical pricing or volume-weighted average pricing across accounts, at our quarterly program reallocation. Additionally, ITS has elected to pay all ETF trading costs resulting from our buys and sells within the GEA strategy rather than the costs being assessed to the client. (A government regulatory fee on sales in covered equity securities is assessed on sales of ETF's. Please refer to *Investment, Custodial & Regulatory Costs/Charges*, pages 9-10, for more information.) These policies and procedures greatly mitigate best execution concerns while essentially eliminating inequitable treatment among accounts.

## Review of Accounts

As described in the *Advisory Business* section of this brochure, ITS does not provide investment supervisory or customized advisory services, nor do we provide comprehensive financial planning services. In other words, our managed portfolio services are not based on the unique and specialized needs of any client as an individual investor. Rather, our management strategies provide different preset approaches to investing. Three of our strategies follow a "quarterly driven" discipline, while two are "market driven." This simply means that portfolio changes are made on either a scheduled calendar quarterly basis or as needed based on ITS's analysis of current market conditions.

Thus, while ITS continuously reviews market, economic, and related financial industry data to determine the data's immediate or future impact on our decision-making within each strategy, ITS does not conduct periodic reviews of individual client accounts for investment supervisory purposes. Oftentimes, the client's assets being managed by ITS represent only a portion of the client's overall investment portfolio. ITS does not request or maintain information regarding a client's other investments. Periodic review of the client's ITS-managed account as well as other investments the client may have is under the purview of the client's financial professional. The financial professional is in a position to make a knowledge-based assessment as to the continued suitability of all financial services he/she has recommended for the client. He/she can determine whether the recommended products and services continue to meet the client's prestated goals and objectives. This ongoing review activity is conducted under the oversight of the financial professional's independent supervisory firm. ITS provides to all clients an annual letter designed to encourage clients to review their personal financial situation. Clients should apprise their financial professional of important

## Review of Accounts *(cont.)*

lifestyle changes or events that may have occurred or will occur that could substantially impact their investments, including any accounts being managed by ITS.

ITS does conduct a verification review following ITS-initiated program trading designed to flag accounts exhibiting a specified variance to the program's portfolio allocation. The goal is to ensure that the ITS program buys/sells are executed properly for all accounts at each ITS program reallocation. Additionally, a similar screen is conducted on an intraquarter basis. Intraquarter account variances can occur as a result of activity such as account withdrawals, additions, or simply up/down movement within a given market sector of investment. Where needed, account holdings are reallocated to realign with the ITS portfolio selected by the client. Other types of account reviews conducted by ITS may include reviews of specific accounts for compliance or performance reporting purposes.

ITS also provides a quarterly newsletter directly to all clients that provides articles of interest relating to the investment markets as well as brief summaries of the ITS strategies and their performance in general terms over the past calendar quarter. ITS clients may obtain log-in viewing access to their ITS-managed account via a link on ITS's website. Current account holdings, asset values, and performance information is available for review. Account reporting (i.e. quarterly statements) is simultaneously provided to the client directly from the custodian of their account (See *Custody* section on page 21.)

## Client Referrals and Other Compensation

### Compensation Paid/Payments Made by ITS

#### Solicitors Fees

As a general practice, ITS does not market or promote its advisory strategies directly to the public, but establishes working relationships with other investment advisory firms that wish to include ITS's strategies as an option for their clients. A client is introduced to ITS through his/her financial professional who works with the client directly to help the client meet his/her financial goals. The financial professional essentially represents the outside advisory firm in offering various securities products and/or advisory services approved by that firm—ITS's strategies being one of these approved services. These advisory firms and the financial professionals are "outside" or "third-party" solicitors of ITS's services.

Outside solicitors have no involvement with the investment decisions made by ITS for client accounts nor are they involved in the actual implementation of the advice (trading) in client accounts. In other words, outside solicitors have no advisory authority or capacity on behalf of ITS. The solicitors do have a financial interest in the referral of clients to ITS in that they will receive a solicitors fee from ITS. The solicitors fee is equal to a percentage of the advisory fee paid by the client to ITS. Payment of the solicitors fee is ongoing so long as the client's account remains under the management of ITS and the client remains a client of the solicitors. Solicitors fees are paid by ITS to the outside advisory firm which may retain a portion of the fees before disbursing the balance to the individual solicitor.

The ITS solicitor's fee is the sole compensation received by financial professionals as a result of placing client accounts in ITS programs at the currently available brokerage platforms. However, it is possible that certain *outside* solicitors may also be receiving trailing brokerage compensation (12b-1 fees) in addition to the ITS solicitor's fee on some accounts that were established in the past and remain active today. These accounts were set up at non-brokerage platforms or directly with investment company custodians. ITS no longer accepts new accounts in either of these arrangements. The 12b-1 trails are paid by the mutual fund companies directly to the FINRA-member firm (broker/dealer) with which the solicitor is registered. The FINRA firm then distributes the fees to the solicitor. ITS has never nor does it currently share in any portion of the brokerage fees generated by the accounts of these outside solicitors.

## **Client Referrals and Other Compensation (cont.)**

Certain of ITS's employees may occasionally act in the capacity of "inside" solicitor for ITS. This activity is very limited, however, as ITS's business model described above revolves around a firm-to-firm marketing approach. As with outside solicitors, inside solicitors, with the exception of Jon W. Erdner, Owner of ITS, are not involved in the investment advisory decision-making process of ITS. Solicitors fees are paid directly to inside solicitors as supervised persons of ITS. Jon W. Erdner waives receipt of solicitors fees on any accounts he places under the management of ITS.

### Revenue Sharing

In addition to the solicitor fees as described, certain of the outside firms, namely Madison Avenue Securities, Next Financial Group, and Sigma Planning Corporation, receive additional compensation from ITS through revenue sharing arrangements initiated by the outside firms. These firms may also have similar revenue sharing arrangements in place with other investment advisors in addition to ITS. ITS's revenue sharing payments to each of these firms are based on total client assets placed under the management of ITS by the supervised solicitors of each of the respective firms. Revenue sharing is paid to these outside advisory firms on a quarterly basis and, if applicable, may be offset by certain marketing expense reimbursements paid to the outside firm by ITS. ITS also pays LPL Financial Corporation, in addition to solicitor fees, a technology fee for its services in the integration of client account data on LPL's technology system. The technology fee is based on total client assets placed under the management of ITS by the supervised solicitors of LPL.

It is important for clients to understand that the revenue sharing and technology fee arrangements have no bearing on the services provided by ITS to clients of the outside firms, nor do clients of the firms pay any additional advisory fees or costs to ITS as a result of the arrangements. While the individual solicitor/financial professional recommending ITS's services to his/her clients is not directly compensated through the revenue sharing or technology fee arrangements, this type of arrangement may be perceived to create a conflict of interest in that it creates an incentive for the firms receiving the payments to internally promote or recommend the services of ITS or other advisory firms where such a compensation arrangement exists.

## **Compensation/Benefits Received by ITS**

### Subadvisory Relationships

ITS's primary source of income, of course, is the advisory fee income it receives from clients for the portfolio management services ITS provides to its clients. At its discretion, ITS may also elect to provide services as a sub-advisor to other investment advisory firms. In this type of arrangement, the outside advisory firms are able to expand their own advisory services offerings to their clients by including ITS's expertise in the area of managed portfolios. For its services, ITS receives compensation from the other firm. The subadvisory arrangements have no impact on the relationship between ITS and its clients. No conflict of interest or lost investment opportunity arises for ITS clients using an ITS managed portfolio strategy that may also be offered on investment platforms used in subadvisory arrangements—the same ITS portfolio framework and ITS proprietary analytics apply. ITS's trading instructions are transmitted the same day for accounts of ITS clients as well as accounts held on the subadvisory platforms.

At the present time, ITS maintains a subadvisory arrangement with Placemark Investments, Inc. ("Placemark"), a registered investment advisor. There is no affiliation between ITS and Placemark. Placemark has engaged the services of ITS in connection with Placemark's UMA Marketplace Program ("UMA Marketplace"), a managed account platform. As one of many Model Portfolio Advisors available on the platform, ITS electronically provides and updates its model investment portfolios, including sector allocations and mutual fund selection data, on an ongoing quarterly basis using software provided by Placemark. Placemark is the primary advisor to all investors utilizing the UMA Marketplace, handling account administrative functions and reserving discretionary authority in relation to the implementation of the recommendations of all Model Portfolio Advisors. Client accounts assigned to the ITS portfolios remain clients of Placemark and are not clients of ITS. ITS is

## Client Referrals and Other Compensation (*cont.*)

compensated by Placemark in the form of a management fee set at an annual rate of .45% [paid to ITS quarterly at a rate of one-quarter the annual rate, prorated for assets assigned to ITS model portfolios over partial periods] and which is based on the overall aggregate value of assets assigned to the ITS model portfolios.

### Economic Benefits

#### Custody Charge Offset

Many mutual funds pay 12b-1 or other administrative fees to broker/dealers, including the brokerage platforms where ITS's services are available, to help cover distribution and marketing costs related to their funds. Such fees are an indirect cost to the client as they ultimately impact the value of a fund's shares owned by the client. While ITS itself does not receive 12b-1 fees or other fund-generated fees, it may receive an indirect economic benefit in relation to these fees as described below.

From time to time, funds that pay 12b-1 or other fees may be selected by ITS for utilization in its managed portfolios. (Whether or not a fund pays these fees is not a consideration of ITS in our fund screening and ranking process which evaluates an established set of criteria in the selection of funds.) Dependent on the custodial platform being utilized and its policy, the platform may retain 100% of these fund fees as it does not impose a custody charge to clients. Alternatively, if the platform does impose a custody charge to clients, it may choose to offset that charge with the fund fees it collects. Because ITS has elected to pay custody charges where imposed (TCA 401(k) and Nationwide 401(k) platforms excluded) that would otherwise be assessed to the clients, ITS receives an economic benefit from the offset.

The offsets as described above may be perceived to create a conflict between the interests of ITS and its clients. However, it is important to note that ITS does not select funds for its managed portfolios based on the distribution/administrative fees paid by the funds, nor does ITS require that any particular available custodial platform be utilized over another based on whether or not an offset may be available. Clients receive the same level of service from both ITS and the custodial platform whether or not funds are selected that pay distribution/administrative fees.

#### Account Administration & Support

The investment platforms where ITS's managed portfolios are available provide custody and trade execution services for ITS client accounts. Because a client of ITS is also a client of the custodian, it benefits all involved if the transactions in client accounts are handled efficiently and securely. To this end, the custodial platforms provide ITS with website access and technology designed to facilitate client account management functions such as reallocating and rebalancing, as well as administrative functions such as automated advisory fee liquidation, processing account contributions/redemptions, etc.

#### Professional Services Cost Discount

An economic benefit available to firms using the Fidelity investment platforms is the availability of discounted rates from a wide variety of third-party service organizations that have established a discount alliance with Fidelity. These organizations provide professional services in many areas such as data management, technology, compliance, legal, human resources, and many more. It is possible that ITS may, from time to time, receive an economic benefit through discounted rates for the services of such third-party firms. However, it is important to note that a discounted rate is not the determining factor in ITS's selection of an outside service provider. Firm expertise and experience coupled with requisite efficiencies and the capability of meeting ITS's defined needs will continue to guide ITS decision-making. Perhaps a more important point to our clients is that the cost of any economic benefit available to ITS through the Fidelity discount alliance is absorbed by the service provider. No costs are directly or indirectly assessed to ITS client accounts using the Fidelity investment platform (see *Research and Other Soft Dollar Benefits*, page 15, for more information).

## Client Referrals and Other Compensation (*cont.*)

### Seminars/Meetings Attendance Costs

Another economic benefit that ITS may receive from time to time involves attendance at seminars, meetings, or training sessions conducted by outside firms that provide services to our firm in relation to our management of client accounts. For example, a data service provider firm may invite ITS personnel to attend a meeting during which new and improved data system functionality and training is presented. Often, the costs associated with ITS's attendance are paid by the firm extending the invitation to the meeting. The fact that costs may be paid by outside parties is irrelevant to and has no bearing on any business decision made by ITS as to whether or not to use the services of the outside party in connection with providing advisory services to our clients.

## Custody

ITS does not have physical custody of the funds or securities we manage for our clients. These funds or securities are held by the custodial platform selected by the client. The platform is an independent qualified custodian. A client always retains access to the assets in his/her managed account and may obtain a portion or the balance of those assets by direct request to the custodian. Even while the client retains direct access, it is strongly recommended that account liquidations or partial withdrawals be administered through ITS. Clients may contact ITS or, if they prefer, their financial professional who will initiate the process with the custodial platform via ITS. When processed through ITS, it helps us to maintain accurate records and, more importantly, it helps to ensure that the allocation of the client's account asset balance is maintained in accordance with the ITS strategy selected by the client.

The custodian provides the client with quarterly or more frequent account statements showing the securities held and their values, the transactions in the account for the past quarter, as well as dividend/earnings information. ITS also makes various reports, including account statements, available electronically to clients who register for access to our data management system with a log-in and password. Clients are urged to compare the information provided on statements viewed via the ITS data management system with that provided on the statements for the corresponding period provided directly to the client by their custodian. Clients should feel free to contact either their financial professional or ITS if they have any questions related to account reports.

## Investment Discretion

ITS manages client accounts on a discretionary basis. This means that clients grant ITS the authority to implement our management of the client's designated investment assets utilizing the ITS strategy selected by the client. The authority granted by the client's execution of a Client Agreement with ITS allows us to effect trading (buying and selling of fund shares) in the client's account without prior notice to or consent from the client. This includes the authority to initially allocate the client's assets into the market sectors and underlying individual fund selections as indicated by our proprietary investment analysis for the strategy selected by the client. Additionally, both the ITS Client Agreement and the custodial account forms completed by the client clarify the permission granted by the client to have ITS's advisory fee liquidated from the managed account (unless alternate payment arrangements are established).

Essentially, ITS clients are seeking professional management of their investment assets. By engaging ITS as their investment advisor, they acknowledge that ITS is likely in a much better position than they are to carry out the investment decision-making for their account. Thus, ITS clients do not place limitations on the authority of ITS when it comes to the implementation of the ITS strategy. In other words, clients cannot place *unreasonable* restrictions on the management of their account. Of course, clients always retain the authority to terminate the services of ITS at any time they so desire.

## **Voting Client Securities**

ITS does not assume the authority to nor does it engage in proxy voting on behalf of its clients. All communication related to voting of securities is provided by the custodian directly to the client.

## **Financial Information**

While ITS is not required to provide an audited Balance Sheet as a part of this disclosure brochure, ITS does engage an independent public accounting firm to annually audit our firm's financial condition. The offer of delivery of a copy of our most recently completed audited Balance Sheet is made to all established ITS clients in our quarterly Client Connection newsletter. ITS acknowledges its responsibility to disclose to its clients any financial condition that is reasonably likely to impair our ability to meet our contractual commitments to our clients, and will promptly do so should this condition ever arise.

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