



## Woodlands Asset Management, Inc.

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### 1. Cover Page

#### **FORM ADV – PART 2A**

#### **“Disclosure Brochure”**

*Copy Date:* **03/20/2014**

*Please see the Glossary at the end of this document for definitions.*

**This brochure provides information about the qualifications and business practices of the Company. If you have any questions about the contents of this brochure, please contact us at 281-367-2483 and/or [gsedita@woodlandssecurities.com](mailto:gsedita@woodlandssecurities.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about the Company may be found at the SEC’s website at <http://www.adviserinfo.sec.gov>.**

## 2. Summary of Material Changes

The following summarizes the material changes in Company's Disclosure Brochure from the previous annual amendment:

1. **Assets under Management:** As of 12/31/13, is approximately \$204,000,000 as compared to approximately \$175,000,000 from the previous year-end.
2. **Types of Accounts:** Added a section for Variable Annuities (which is also included in the Fee Section) as a type account Company may use for clients seeking tax deferral.

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## 4. Advisory Business

### A. Our Business

Woodlands Asset Management, Inc. (the “Company”), a federally registered investment advisory firm, was formed in 1992. Company is also referred to clients with the acronym, “WAMI.” Morris Monroe is the sole owner, President and Chief Compliance Officer (CCO). Morris Monroe is also the owner of Woodlands Securities Corporation (WSC), a broker/dealer and member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC). Both companies are under common control and therefore affiliated. WSC may be used as the broker/dealer to execute some client account transactions.

It is the policy of the Company to conduct its business in a manner that meets the highest standards of commercial honor and just and equitable principles of trade and adhere to regulatory rules and federal laws. Inherent in all client relationships is the fundamental responsibility to deal fairly with clients and provide full and fair disclosure of all material facts, including conflicts of interest. This will enable clients to make informed decisions about entering or continuing the advisory relationship.

*Federally registered investment advisor means registered with the Securities and Exchange Commission (SEC) and does not imply any specific training or education. It also does not mean any recommendation, sponsored, or approved by the SEC or the United States or any of its agencies or officers.*

### B. Description of Services

Company’s goal is to help clients set realistic, long term investment objectives. To help achieve those objectives, Company is primarily involved with managing client accounts through diversified mutual fund models and fixed income accounts on a discretionary basis. In general, Company provides investment supervisory management for a fee that is calculated as an annual percentage of account assets. Company’s services may also include incidental investment advice through consultations that may not include a fee. In addition, Company may also use outside advisers for some accounts and Company will receive a portion of the fee for those accounts. The type of account will depend on a customer’s financial objectives and risk tolerance. Please see Section 7 for more information.

Company may also consult 401k plans by designing mutual fund models for the participants to choose within their plan (similar to the mutual fund models Company uses for its clients). The service may include model compositions and adjustments. The mutual fund models are an additional investment option made available through the plan’s third party administrator’s platform. Company receives an annual fee (based on total Plan assets) from each participant for such service (based on their prorata share of such Plan assets).

Company may also recommend similar mutual fund type modes within a variable annuity for clients looking for an investment vehicle that provides tax deferral. Company will receive an annual fee as the advisor to the variable annuity based on the account value.

### C. Client Advice

The type of account and advice provided to a client depend on initial consultations and their responses to Company’s new account form and investment questionnaire. Advice may be more specific to a client if they are placed in a fixed income account or more general if placed in a mutual fund model or outside adviser. In addition, a client may impose restrictions on investing in certain securities or types of securities if this is communicated to the Company in writing.

#### **D. Wrap Fee Programs**

**Not applicable.** A wrap fee program is any advisory program in which a specified fee or fees not based directly upon transactions in a client's account is charged for investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisers) and the execution of client transactions. Company may advise the use of and select an outside adviser to manage a client's account; however, these are not considered wrap fee accounts since they are also charged asset based fees or transaction charges as described in Section 5B.

#### **E. Client Assets**

As of December 31, 2013, Company had approximately \$204,016,056 of assets under management (comprised of \$201,023,675.62 of discretionary and \$2,992,380 of non-discretionary assets) for approximately 370 clients.

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

#### **A. Company Fees**

Company's Investment Agreement governs the relationship between the Company and its client, including the fee that the client pays to Company for its services. Company uses two main custodians to hold client funds and securities. First, Schwab Institutional maintains most accounts and second, Southwest Securities, Inc. (Southwest) in Dallas, Texas, for some accounts who are not in a model.

Accounts are charged an annual percentage of assets under management. Fees are negotiable and are calculated as a percentage of the managed account balance. They are charged and collected quarterly with the first quarter fees due in advance based on the starting account balance when all assets have been credited to the account at the custodian (i.e. either from a transfer or a deposit).

In addition, Company may recommend the use of outside advisers or managers, in particular for equity accounts through Schwab's Managed Account Marketplace platform and a Third Party Asset Management Provider ("TAMP"). Annual fees are negotiable but typically are charged up to 2% of annual assets under management. The fee is collected quarterly and split 50% to TAMP and 50% to Company. Again, TAMP has full trading discretion. Trades may be entered as block trades for related accounts of TAMP where some clients may or may not receive a slightly better price/share than others.

Below are the typical annual fees charged for the different types of Company accounts:

<b>Model Portfolios</b>
Up to 3.0%
<b>Fixed Income</b>
Up to 1.5%
<b>Equities – Outside Third Party Manager</b>
Up to 2.0%
<b>401Ks</b>
Up to 1%
<b>Variable Annuities</b>
Varies by product Typically up to 1%

## B. Payment of Fees

Annual fees are charged and collected quarterly. Payment of fees is deducted automatically from the client's account by authorizing Company and custodians to do so through the Investment Agreement and application forms. The process for the two main custodians is described below:

1. **Schwab Accounts:** Company will submit an invoice to Schwab for the fees to be deducted from all the client accounts and Schwab will remit to Company one payment for the total fee. Client will receive an invoice along with their quarterly statement prior to the fee being deducted from their account.
2. **Southwest Accounts:** Southwest calculates the fee and deducts that fee automatically from client's account. Client will receive an invoice along with their quarterly statement after the fee has been deducted.
3. **Variable Annuities:** Insurance company will calculate and typically pay Company fees on a quarterly basis for the asset value of the contracts.

## C. Other Fees

In addition to Company fees, there are other fees that client may incur:

- One-time Setup Fee – Accounts may be charged a one-time setup fee, which will be charged to the account after acceptance by Company and the client, and is not refundable upon later cancellation by either Client or Company. Under certain conditions it may be credited toward the first quarterly fees charged to the account.
- Miscellaneous and Termination Fees – There may be certain fees charged for account processing or requests (i.e. sending out physical certificates, wire requests). In addition, accounts may incur a fee upon termination of the account. These fees are charged by the custodian and are not negotiable.
- Mutual Fund 12b-1 Fees and Other Fees – All mutual funds pay fees called 12b-1 fees or administrative or shareholder servicing fees to broker/dealers for the distribution of their funds. These fees are deducted from the Net Asset Value of the funds that may be held in client portfolios on a continuing basis. These types of fees are routinely borne by all mutual fund shareholders as an indirect expense to their account. However, Company does not receive any 12b-1 or service fees. Mutual funds may also charge other expenses and management fees. These fees are set by the mutual fund company and are not negotiable.
- 401k Accounts: If applicable, a 401k plan invoice is submitted quarterly to the TPA (for one-fourth of the annual fee). The TPA will deduct the prorata amount from each participant's account and forward one check to the Company for the plan's total invoice.
- Broker/Dealer Fees – While Company manages client accounts, the trades are conducted through a broker/dealer. The broker/dealer collects fees to cover the cost of the transaction. For accounts at Schwab as the custodian, Schwab is also the broker/dealer. For accounts at Southwest Securities as the custodian, Woodlands Securities Corporation (WSC) is the broker/dealer. These charges are not negotiable and are in addition to the management fee charged by Company. In addition to the charges below, there may be broker/dealer handling or processing fees and SEC exchange transaction fees assessed and adjusted periodically. Below is a description of these broker/dealer pricing schedules:

1. **Schwab:** offers two types of pricing as the broker/dealer for accounts; Transaction Based and Asset Based Pricing (ABP):

Transaction Based – The majority of accounts are typically set up with Transaction based pricing unless Company requests ABP fees with Schwab. Accounts are charged a fee for each transaction which is generally described below:

<b>Mutual Funds</b>	
OneSource MFs: (Schwab Platform)	No transaction fee - unless sold within 90 days, then \$49.95 (but may vary with fund as well as any additional redemption fees).
Non OneSource:	Up to \$15,000 – 0.24% Principal (\$20 Min/ \$36 Max) \$15,001 + - 0.12% Principal (\$36 Min/ \$49.95 Max)
<b>Fixed Income</b>	
Treasuries	\$0
Government Bonds	\$0.20/bond (\$10 min/\$250 max)
Un-listed bonds	\$1.00/bond (\$10 min/\$250 max)
Municipal bonds	\$1.00/bond (\$10 min/\$250 max) plus may be a \$25 Prime Brokerage transaction fee
New Issues/CDs	Included in offering price
<b>Equities/ETFs</b>	
With eDelivery	\$8.95/trade (or with \$1,000,000 in household assets)
Without eDelivery  (eDelivery - receive confirms, statements electronically)	\$19.95/trade up to 1000 shares Plus \$0.015/share thereafter

*May be a \$25 premium for any Schwab broker assisted trade.*

Asset Based Pricing (ABP): Typically used for outside managed and/or frequently traded accounts, an annual service fee is charged in arrears on a monthly or quarterly basis. The fee can be negotiated between Company and Schwab and is generally lower than the Transaction-Based fees but may be higher. The terms of Alternative Pricing may be based upon the nature and scope of business that Company transacts with Schwab, including the current and expected future amount of Company clients' assets custodied at Schwab, the types of securities in Company clients' accounts, and/or expected frequency of the Company's trading. The general ABP fee is below:

<b>Account Size</b>	<b>Service Fee</b>
First \$250,000	40 basis points (0.0040)
\$250,001 - \$1,000,000	20 basis points (0.0020)
\$1,000,001 - \$2,000,000	15 basis points (0.0015)
Greater than \$2,000,000	12 basis points (0.0012)

2. **Woodlands Securities Corporation (WSC):** As the broker/dealer for accounts held at Southwest Securities, WSC charges transaction fees as typically described below:

<b>Mutual Funds</b>
NSCC funds range between \$3.50-\$20/trade (depending on principal amount)
Non-NSCC funds - \$75/trade

<b>Fixed Income (FI)</b>
Listed Bonds - \$2/bond (\$12 minimum)
Non-Listed FI - \$50/trade – up to \$100,000
\$100/trade – over \$100,000
<b>Equities/ETFs</b>
\$12.00/trade up to 2000 shares
or
for 2000+ shares:
Market Orders - up to \$.015/share
Limit Orders-\$.02/share

*All transactions incur a \$4.50 processing fee.*

#### **D. Advance Payments and Refunds**

Account fees are typically charged and collected quarterly with the first quarter fees due in advance based on the starting account balance when all assets have been credited to the account at the custodian. Since accounts are billed in advance, if an account is terminated prior to the following quarter end, the client would receive a prorated refund.

#### **E. Supervised Persons Compensation**

A supervised person refers to any of Company's officers, partners, directors (or any other person of similar status and performing similar functions), employees, or any other person who provides investment advice on behalf of Company and is subject to its supervision and control. These persons do not receive any commissions or other compensation from selling any investment products through the Company. However, some of these supervised persons are also Solicitors who receive a portion of the annual fee charged to clients for introducing accounts to Company. In addition, some of the supervised persons are paid salaries through WSC and some are also registered representatives of WSC and receive selling compensation through WSC which is discussed further in Section 10.

1. Custodians and Broker/Dealers: Because Company uses mainly two custodians for its client accounts and may use its affiliated broker/dealer, WSC; clients may not choose to use any other custodian or broker/dealer while maintaining an account with Company. This poses a conflict of interest to clients since they cannot direct their transactions to a different broker/dealer. Therefore, they may or may not pay higher fees or expenses and may or may not have less favorable execution prices associated with their account.
2. Commissions: Company does not receive any revenues from sales commissions for selling securities or from 12b-1 fees.
3. Markups: A markup is a sales charge generally imposed on a fixed income product and represents the difference in price the security was purchased at and the price the client pays. For Company's fixed income accounts, Company does not charge the client a markup for any purchases, only the asset based advisory fee, however, WSC may receive a transaction fee.

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

**Not applicable.** Performance based fees are fees based on a share of capital gains on or capital appreciation of the assets of a client and Company does not engage in charging such fees. Side-by-side



management refers to either Company or a supervised person managing both accounts that are charged a performance-based fee and accounts that are charged another type of fee, such as an hourly or flat fee or an asset-based fee at the same time or side-by-side. Company does not engage in such type management.

## 7. Types of Clients and Accounts

### A. Types of Clients

The majority of Company's clients are individuals or natural person accounts (approximately 90%). The remaining accounts are Trusts, Partnerships, Corporations, and 401k plans

### B. Types of Accounts

Company is primarily involved with managing client accounts through diversified mutual fund models and fixed income accounts. The type of account will depend on a client's financial objectives and risk tolerance. In addition to the types of accounts it manages, Company may also use an outside adviser for some of its clients' portfolios. Below is a brief description of the four main types of client accounts offered by the Company (clients may have a mixture or combination of such accounts):

#### 1. Mutual Fund Models

To provide a diversified asset allocation, Company uses three main models of mutual funds that satisfy different risk versus reward characteristics. Based on an initial consultation and responses to Company's new account form and client questionnaire, a model will be assigned. There are three main model types:

- **Conservative** - typically comprised of approximately 51% Equity funds and 49% Bond funds and Cash.
- **Moderate** - typically comprised of approximately 71% Equity funds and 29% Bond funds and Cash.
- **Aggressive** - typically comprised of approximately 89% Equity funds and 11% Cash.

In addition, there may be some variations of the above models depending on the size of an account or for defensive measures. Variations may include different weights in the percentages and may include Exchange Traded Funds (ETF). An ETF is a basket of assets like a mutual fund that tracks an index but is traded on an exchange like a stock. ETFs experience price changes throughout the day as they are bought and sold. They have a prospectus like a mutual fund and usually have lower expense ratios than the average mutual fund. There are tax consequences of owning and selling ETF shares (including if shares are sold within one year of purchase; any gain will be taxed as ordinary income).

#### 2. Fixed Income Accounts

For clients who have a greater need for a fixed income stream and/or protection of principal, Company offers accounts that are invested directly in debt instruments. These may be comprised of corporate bonds, municipal bonds, certificates of deposits, treasuries, and agency securities.

### 3. Outside Adviser Accounts

Company may use an outside adviser to manage a client's account through Schwab's Managed Account Marketplace platform through a Third Party Asset Management Provider ("TAMP"), primarily for equity accounts. Currently, these include Garcia Hamilton & Associates (formerly Davis Hamilton Jackson or "DHJ"), AllianceBernstein, and Brandes. Company may use other advisers through the TAMP platform for other type accounts as well. TAMP has full trading discretion. Trades may be entered as block trades for related accounts of TAMP where some clients may or may not receive a slightly better price/share than others.

### 4. Variable Annuities

For clients seeking tax deferral, Company may utilize a variable annuity. A Variable Annuity is an insurance contract in which, at the end of the accumulation stage (when investor contributions, or premiums, are allocated among investment portfolios, in the subaccount, and earnings accumulate), the insurance company guarantees a minimum payment. Purchases can be a single payment or a series of payments.

The contract has a subaccount which offers a range of investment options. The value of the investment will vary depending on the performance of the investment options chosen. The earnings in the account are tax deferred which means no taxes are paid on the income and investment gains from the annuity until the money is withdrawn. Taxes will then be paid on the earnings at ordinary income tax rates. Company will recommend funds in the sub account of the variable annuity similar to the types of funds in the Mutual Fund Models, perhaps some funds exactly the same. Company would collect a quarterly fee based on the value of the account, generally 1%.

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

### **A. Methods of Analysis and Investment Strategies**

Navigating the vast expanse of investment vehicles, markets, and information is a daunting job. However, Company has some specific tools, methods, and expertise to help formulate investment advice and manage assets. These include:

1. For the approximate 32,000 mutual funds available in the market, Company uses a software program for investment analysis in choosing the funds for the various models, selection of managers, and when to purchase or sell. This analysis involves very specific or general search criteria across different sectors, asset classes and peer groups, and provides performance and technical analysis. The process allows some of the following evaluations:
  - How a fund's performance numbers measure against others in its peer group;
  - How a fund's rankings over a fixed period of time measure against other funds that meet Company's selected criteria;
  - Comparing a fund's amount of risk to performance numbers that measure risk;
  - Screening managers for risk measurements, fees and expenses, annualized returns, and ranking in their peer group; and
  - What processes and strategies the manager of each fund uses in order to meet its stated style and objectives.

2. Company uses technical analysis tools and other various methods to evaluate investments. These include:

- Relative Strength Index – measures speed and change of price movements within a certain sector and is generally used to identify the current trend and determine whether to allocate more or less to a particular fund;
- Moving Averages – shows the average value of a security's price over a set period and is generally used to measure momentum and define areas of possible support that keep the price from decreasing and resistance points from keeping price increases; and
- Active allocation - evaluations are made on a frequent basis to manage the changes and swings within the markets.

3. Company monitors the funds and makes adjustments. A weekly review of the relative strength of the asset classes in the portfolios is conducted. Monthly, the performance of each manager against their respective peer groups is reviewed. And a regular review of valuation, investor sentiment, monetary policy, and moving averages are conducted.

In addition, when an account is assigned to a mutual fund model, the assets are gradually invested into the specific allocation and reviewed quarterly to maintain the model targets. If there are any changes to the funds due to the above analysis, trades will be entered to either buy or sell portions of the funds in the accounts or make any determined changes to the model composition.

For fixed income accounts, typically investment-grade debt securities are purchased with laddered, or varying, maturities, using intermediate terms (generally between 4 and 10 years to maturity). However, depending on a client's risk tolerance, a few lower, or non-investment grade bonds may be purchased or for other maturity term lengths.

## **B. Risks Involved**

All investments and investment types have certain risks (i.e. market risk, credit risk). It's important to understand that investing in securities involves risks of loss that clients should be prepared to bear. However, there may be other risks associated with client accounts because of Company's investment strategies or analysis. These may include general advice to the model portfolios that is not specific to a particular client. Other risks may include the risks associated with the various fund managers in the model portfolios; however, Company strives to diversify among manager styles and mutual fund classes to mitigate some of that risk.

## **C. Use of Particular Types of Securities**

Model portfolios are primarily invested in mutual funds, cash equivalents, and ETFs and generally do not invest in other security types which may limit potential growth from other type investments or hedge against losses. However, Company does take into consideration this risk and does invest in other security types and or fund allocations when deemed beneficial to the model accounts.

Risks inherent to mutual funds, ETFs, and Variable Annuities in particular include market risk and the possibility of losing value. Prospectuses also contain further information on their risks.

Fixed income accounts invest in debt securities to provide an income stream or protection of principal for clients. While the investment risk to clients may include the limitation of the account to debt products, these accounts are customized specifically to each client and their needs. Therefore, other security types can be added, but in general, the customer opens this type account aware of the security

type and for the income and/or principal protection benefits. Among the risks specific to debt instruments are default and credit risk, interest rate risk, and call risk if the bond is callable (where the issuer can call in the bond prior to maturity). See the Glossary for further explanations of these risks.

## 9. Disciplinary Information

### **Not applicable.**

Disciplinary information refers to any legal or regulatory issue related to Company or any of its supervised persons within the past ten years or any events that are material to a client's or prospective client's evaluation of Company's advisory business even if the occurrence was beyond ten years.

## 10. Other Financial Industry Activities and Affiliations

### **A. Broker/dealer Affiliation and Activities**

Morris Monroe, president and owner of Company, is also president and owner of Woodlands Securities Corporation (WSC), a FINRA registered broker/dealer. Registered Agents of Company are also licensed Registered Representatives of WSC where they conduct transaction based securities business and receive commissions.

### **B. Other Affiliations, Activities, and Conflicts of Interest**

1. **Attorney**: Portia Brown, an employee of WSC and WFSI, is also an attorney as represented as Portia Brown, Attorney at Law, 10655 Six Pines Dr. Ste 100, The Woodlands TX 77380, (281) 367-2483.
2. **Accountant**: Connie Smith, an employee of WSC, is also a Certified Public Accountant (CPA) and conducts accounting work for Company and affiliated companies.
3. **Insurance Agents**: Registered Agents of Company are also licensed insurance agents and receive selling compensation for insurance products.
4. **Limited Partnerships and Private Offerings**: Morris Monroe and Registered Agents of Company through the affiliated broker/dealer WSC, sponsor limited partnerships or private offerings that are offered to WSC clients and who may also be clients of Company. In addition, Morris Monroe is affiliated with the General Partner of certain limited partnerships or Issuer of private offerings. In addition to clients, related persons may participate in such investments as well. These include the following:
  - **Woodlands Financial Services, Inc. (WFSI)** – dba **Midwest Coast Financial** is an Automobile finance company and Issuer of various private debt offerings since 1993. Morris Monroe is also a director and owner of WFSI since inception. Related to WFSI is **Timberloch Capital LLC** and **Timberloch Reinsurance Co Ltd**, in which Morris Monroe is a company member, which provides insurance for automobiles, financed by WFSI.

- **WSC Holdings Willis Industrial Property, LLC (“WSC Holdings”)** – Morris Monroe is a member of this real estate related company which serves as the General Partner of limited partnership(s).
- **Residences at Riverdale LP** - Morris Monroe is a special Limited Partner of this real estate limited partnership and WSC Holdings (in which Morris Monroe is a company member) holds 10% as a Class B Limited Partner.
- **OEM – Woodlands LP** – WSC Holdings (in which Morris Monroe is a company member) holds 10% as a Class B Limited Partner.
- **Cow Guys Partnerships** - Morris Monroe is a member along with other Company clients. These partnerships were formed to invest in a managed portfolio of futures contracts at an outside futures trading company.
- **Six Pines Partners LP** – Morris Monroe is a member of the General Partner, Timberloch Capital LLC. This limited partnership was formed to purchase an office building where both WSC and WFSI are tenants.
- Personal Investments real estate related limited partnerships or LLCs – Morris Monroe is a member of **GSRL Medical LP**, and **Woodlands Income Partners**. In addition, both Morris Monroe and David Vaughan, a registered agent of Company, are members of **3MVP LLC**, the General Partner of **Palacios Partnership**.

Other industry activities and affiliations pose certain conflicts of interest to Company’s clients. These persons have other financial interest or receive other compensation for their activities which may or may not be incentive to focus more time on those activities rather than advisory business.

Participation in a general partnership, limited partnership, or LLC poses conflicts because of the personal financial interest, gain, and or compensation that may be received. In addition, there may be an incentive for sales of such products to clients by Morris Monroe and/or other representatives of WSC. For all limited partnerships offered through WSC as the selling agent, an offering document is given to clients that discloses all conflicts of interest and enables evaluation of the investment in light of such conflicts.

Both Company and WSC maintain written supervisory policies and procedures to manage their related persons. In addition, Company discloses pertinent information in this Disclosure Brochure as well as information for registered persons of both Company and WSC in the FINRA database. Further information about related Registered Agents of Company and WSC are also accessible to the public on FINRA’s Broker Check website at

<http://www.finra.org/Investors/ToolsCalculators/BrokerCheck/>.

### **C. Selection of Other Investment Advisers**

Company may select the use of another investment advisor through Schwab’s Third Party Asset Management Provider (“TAMP”) platform. Primarily these outside advisers are used to manage equity accounts and are charged an annual fee up to 2% of managed assets. This fee is split 50% to Company and 50% to the outside adviser. This poses a conflict of interest because Company is receiving other fees in addition to its revenue for managing accounts. In addition, a client might be able to contract

some of the TAMP advisers directly and not through Company thereby may or may not receive a lower fee. However, Company is able to offer this service to clients who may not meet the TAMP adviser's minimum account balance.

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

### **A. Code of Ethics Summary**

The Company recognizes its fiduciary responsibility to its clients. It is the duty and responsibility of the Company, shareholder(s), and related persons to comply with federal securities laws and place the interest of the Company's clients first. Related persons shall refer to shareholders, officers, registered agents, and employees. All personal securities transactions are to be conducted consistent with Company's Code of Ethics, and in such a manner to avoid any actual or potential conflict of interest or to abuse an individual's position of trust and responsibility. Personal transactions may not involve market timing or late trading of mutual funds. No person associated with the Company should take inappropriate advantage of his or her position and must adhere to all federal and state securities laws and standards of business conduct. Company will provide a complete copy of its Code of Ethics to a client upon request or it can be accessed on Company's website at [www.woodlandsassetmgt.com](http://www.woodlandsassetmgt.com).

### **B. Recommend Client Transactions with Personal Financial Interest**

Both Company and WSC may share similar clients. Related persons of both companies are involved in recommending investments. Some of those investments may involve recommendations where related persons have some financial interest. They may either receive selling compensation for securities transactions through WSC or have further financial interest as mentioned in Item 10(C) above as a sponsor of private offerings and/or affiliation with the General Partner or Issuer. Again, the latter would be disclosed in any related offering document. WSC broker/dealer affiliation and compensation are also disclosed in Company's Investment Agreement in Section 3, "Affiliations."

### **C. Participation in Client Transactions**

Related Persons of Company may also participate in similar securities as Company clients. However, at no time should personal transactions be of such size to affect security pricing indirectly. To the extent that Company related persons are aware of trades in individual issues being considered, recommended, or traded for Company clients, they shall make every effort to trade in their own accounts after trades are executed for clients. However, since the price of a mutual fund is determined at the end of the day, related persons may invest in mutual funds at any time but not involve any market timing or late trading. Debt securities are priced the same to Company clients and related persons. These can pose potential conflicts of interest since a related person may have incentive to recommend securities they own to clients for any potential price improvement or profit. However, personal transactions are reviewed by Company personnel at least quarterly to ensure related person transactions do not pose a risk to clients.

### **D. Personal Trading**

It is a policy of the Company that related persons must avoid security transactions and activities for their own accounts which might conflict with or be detrimental to the interests of clients, or which are designed to profit by market effect of the Company's advice to its clients. To the extent that related persons are aware of trades in individual issues being considered, recommended, or traded for

Company clients, related persons will make every effort to trade in their own accounts after trades are executed for clients. However, at no time are Company client trades or Company related person trades expected to be of such volume as to affect the price of an individual issue.

As mentioned in C of this section, given that Company primarily recommends and invests in mutual funds for clients, individuals may not directly or indirectly affect a mutual fund's price. Such tactics as market timing or late trading are strictly prohibited. Debt securities are priced the same to Company clients and related persons. Therefore, related persons may trade in mutual fund issues and debt securities being traded for clients on the same day or before or after trades are placed for clients.

## 12. Brokerage Practices

### A. Broker/Dealers for Client Transactions

Company does not maintain custody of client accounts. Accounts are primarily held or maintained at Schwab Institutional Services ("Schwab") and a small number at Southwest Securities, Inc. ("Southwest") as the qualified custodians. Company is independently owned and operated and not affiliated with Schwab or Southwest. The custodians hold client accounts and execute transactions when instructed by the Company. The securities transactions must be executed through a broker/dealer. Below describes the broker/dealer for each custodian:

Custodian	Broker Dealer
Schwab Institutional	Charles Schwab & Co.
Southwest Securities	Woodlands Securities Corp (WSC)

This poses conflicts of interest. First, WSC and Company are affiliated with Morris Monroe as the owner of each. Clients do not pay a commission to Company but a commission to WSC to help cover the cost of the transaction. Second, using Schwab and WSC as the broker/dealers is a condition for maintaining a client account. Consequently, clients may or may not pay higher fees or receive less favorable execution prices.

Brokerage practices include:

#### 1. Research and other Benefits

Company receives certain benefits from using Schwab and Southwest for custody, trading, reporting and related services for client accounts. Company may receive proprietary software, research, and technology, information and consulting services from both Schwab and Southwest Securities. For example, custodian proprietary software enables Company to conduct many functions related to client accounts. These functions may include viewing account information, entering trades, creating reports, accessing statements and confirmations to name a few. Company does not pay for research or the Southwest or Schwab's web-based access to client accounts due to the amount of managed assets at Schwab or WSC's clearing agreement with Southwest Securities.

However, Schwab may from time to time contribute a portion of the fee for the Portfolio Center software which provides Company with additional functions for managing client accounts. These functions may include pricing of securities, portfolio and performance reports, model allocations and rebalancing, client fees, recordkeeping and other back office functions.

In addition, Schwab has occasionally offered event tickets for Company and/or its clients (i.e. golf tournaments, concerts, etc). These services are not allocated to any particular client or group. While the benefit of these services might pose a conflict of interest for a company that uses them as criteria for choosing a broker/dealer, it is not the case for Company since it does not actively seek other broker/dealers for client transactions.

## **2. Brokerage for Client Referrals**

**Not applicable.** Company does not receive client referrals from a broker-dealer or third party.

## **3. Directed Brokerage**

Company requires clients to use the two broker/dealers, Schwab and WSC to execute transactions. In addition, clients may not direct trades to another broker/dealer. As mentioned earlier, this poses conflicts of interest. See Item 12(A) above.

## **B. Aggregation of Client Transactions**

Equity accounts that are managed by an outside adviser as described in Section 7 may aggregate trades for client accounts. This allows for those trades to be bunched together and receive the same execution price. Fixed income accounts managed by Company may be aggregated when possible, however, due to the individual nature of each account, may not be done on a regular basis. When purchased individually, the client may or may not pay a higher price or receive a less favorable execution than when aggregated with other accounts.

# **13. Review of Accounts**

## **A. Client Account Reviews**

Review of client accounts is multilevel:

1. Operations Department: Trades and account alerts are reviewed daily. Trades are also reviewed on a monthly basis. Operations prepare and review client quarterly invoices and reports. A random sampling of accounts is selected each quarter to review for accuracy, exceptions, or anomalies. In addition, Operations reviews client accounts intermittently to ensure they are in line with any applicable model.
2. Compliance: Reviews accounts at the opening and a more thorough review of a sampling of accounts annually. Among the items reviewed are investment objectives, financial profile, transactions, and correct fee charged. In addition, Compliance ensures clients receive a letter within 30 days of opening an account that verifies their objectives and financial information as well as every three years thereafter.
3. Investment Committee: Reviews and analyzes mutual funds in the model accounts, when to buy and sell, and monitor and adjust as more fully described in Section 8.
4. Advisers: Morris Monroe and Chris Moss in Lufkin randomly review clients' quarterly reports. In addition, accounts are reviewed through personal meetings or telephonically and/or at client's request.



## **B. Other Trigger Reviews**

There may be factors that trigger a review in addition to those mentioned above. This may include large swings or variability in the market that may trigger additional review of client accounts or model portfolio composition. In addition, Company will conduct a review of an account if requested specifically by a client.

## **C. Client Reports**

Company provides access to a quarterly report to clients that includes various graphical, portfolio statements, an invoice, and sometimes a letter from Morris Monroe on recent market activity and/or model updates or a third-party newsletter. Quarterly statements are prepared by an independent third party. Clients also receive an account statement directly from the custodian. It's important for clients to carefully review those statements and compare to the quarterly statements.

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

Company pays a solicitor fee to its Registered Agents for referring accounts to the Company. This fee is a percentage of the annual management fee that Company collects from the applicable client and paid to the solicitor quarterly. Client acknowledges such fee by signing Company's Investment Agreement with the Solicitor/Agent Disclosure Form included as Exhibit B. Company does not pay any other fees for client referrals to any other individuals or companies.

# **15. Custody**

Company does not maintain custody of client accounts. Company uses two outside custodians to maintain or hold its client funds and securities:

1. Schwab Institutional – maintains the majority of accounts; and
2. Southwest Securities, Inc.

A separate custodian/insurance company may be used for any variable annuity holdings.

Custodians mail account statements directly to clients. It's important for clients to carefully review those statements and compare to the quarterly statements received from the Company.

# **16. Investment Discretion**

Clients engage Company to manage their account with an Investment Agreement ("Agreement"). This Agreement also grants Company full discretionary power to manage the assets by deciding which

securities and when to engage in transactions in the account without prior approval of the client. There are rare cases of non-discretionary accounts where the client directs the account. These are typically for Company employee or employee-related accounts or 401K participants who may choose from Company advised models or their own choices. Clients may impose restrictions or limitations on this authority by notifying the Company in writing. This may include but not limited to:

1. Restrictions on purchasing certain securities or security types (i.e. tobacco companies);
2. Restrictions on selling certain securities held in the account.
3. Restrictions or limitations on amount of cash to be maintained in the account.

## **17. Voting Client Securities**

Shareholders have the benefit and right to vote on certain corporate matters and may attend annual or special meetings to cast their vote on such matters. However, most shareholders do not wish to attend such meetings so corporations mail voting or proxy material to give shareholders the option to vote. Company does not vote client securities. Clients will receive any proxy materials or other solicitations directly from the account custodian or transfer agent. However, clients may contact Company with any questions about any solicitations.

## **18. Financial Information**

**Not Applicable.** Company is not required to provide a balance sheet as part of its Disclosure Brochure. However, Company will provide one to clients upon written request.

## **GLOSSARY**

**12b-1 fees:** An annual marketing or distribution fee on a mutual fund that is typically paid quarterly to a broker. The 12b-1 fee is considered an operational expense and, as such, is included in a fund's expense ratio. It is generally between 0.25% - 1.0% (the maximum allowed of a fund's net assets). The fee gets its name from a section in the Investment Company Act of 1940.

**ABP – Asset Based Pricing:** Refers to accounts that are charged an annual service fee by the broker/dealer that is conducting the transactions.

**Bond:** A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate. Bonds are used by companies, municipalities, states and U.S. and foreign governments to finance a variety of projects and activities.

**Broker/Dealer:** Financial Industry Regulatory A firms who generally buy and sell securities that are transaction-based for commissions.

**Call Risk:** Bonds with a call provision may be redeemed or called by the issuer, requiring the bond to be redeemed at their face value well before their maturity dates. A bond issuer often calls a bond when interest rates drop, allowing the issuer to sell new bonds paying lower interest rates, allowing the issuer to save money. The bond's principal is repaid early, but the investor may be left unable to find a similar bond with as attractive a yield.

**Credit Ratings:** Credit ratings are a means of evaluating default and credit risk. The Securities and Exchange Commission (SEC) has designated 10 rating agencies as Nationally Recognized Statistical Rating Organizations (NRSROs). Some of the more familiar ones are AM Best; Moody's Investors Service (Moody's); DBRS Ltd.; Egan-Jones Rating Company; and Fitch Ratings (Fitch). These organizations review information about selected issuers, especially financial information, such as the issuer's financial statements, and assign a rating to an issuer's bonds—from AAA (or Aaa) to D, or no rating. Each rating organization has its own rating system and each bond may receive a different rating between the different organizations.

**Default and Credit Risk:** Refers to the likelihood of being repaid. There is a risk that the issuer's promise to repay principal and pay interest on the agreed upon dates and terms will be upheld. U.S. Treasury securities and other bonds backed by the "full faith and credit" of the US government, are generally deemed to be risk-free. However, most bonds face a possibility of default. This means that the bond issuer will either be late paying creditors (which include bondholders), pay a negotiated reduced amount or, in worst-case scenarios, unable to pay at all. Therefore, the issuer's credit rating is important to determine the credit worthiness of an issuer and their ability to pay principal and interest on time.

**Discretionary Authority:** The authority to buy and sell securities in the client's account without their consent. This authority is granted in the Investment Agreement or some other form.

**eDelivery:** Refers to receiving communications electronically (i.e. email) rather than in paper format through standard U.S. mail delivery.

**Equity:** Also referred to as stock is an investment security that represents an ownership interest.

**FINRA** – Financial Regulatory Authority: The self regulatory organization that oversees its member broker/dealers.

**Fixed Income:** Refers to an investment that provides real return rates or periodic income at regular intervals at reasonably predictable levels. This can include bonds, bond mutual funds, municipal bonds, and certificates of deposit among others.

**Interest Rate Risk:** The risk that changes in interest rates in the US or the world may reduce (or increase) the market value of a bond. Interest rate risk—also referred to as **market risk**—increases the longer the bond is held.

**Investment Adviser:** Any person or group that makes investment recommendations or conducts securities analysis in return for a fee through direct management of client assets (or via written publications).

**Late Trading:** The illegal practice of purchasing and then selling securities (usually shares of a mutual fund) after the close of a trading day, but making the transactions appear as though they occurred before the market close.

**Limit Order:** An order to buy or sell a certain number of units or shares of a security at a specific price limit or better.

**Market Order:** An order is entered to be executed at the current market price.

**Market Risk:** Refers to the risk of potential losses from a security's price that may fluctuate from day to day.

**Market Timing:** Refers to frequent trades involving purchases and redemptions in a particular mutual fund. A fund must describe its market timing policies in its prospectus (which discloses all pertinent information about a fund) and Statement of Additional Information.

**Mutual Fund:** Also referred to as an “investment company”, is an investment security that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are operated by money managers, who invest the fund's capital and attempt to produce capital gains and income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

**Net Asset Value (NAV):** The price per share for a mutual fund that is calculated daily (after the close of trading) by dividing the total value of all the securities in its portfolio, less any liabilities, by the number of fund shares outstanding.

**NSCC – National Securities Clearing Corporation:** Provides clearance, settlement and information services to the financial industry.

**Related Person:** refers to Company shareholders, officers, registered agents, and employees.

**Supervised Person:** Refers to Company's officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on behalf of Company and is subject to Company supervision or control.

**Supervisory Management:** Refers to an adviser who provides continuous or ongoing supervision and review of an account.

**Third Party Administrator:** Performs managerial and clerical functions related to an employee benefit plan (i.e. 401k plan) by an individual, committee, or company who is not a party to the benefit plan.

**Wrap Fee:** An advisory fee program under which a specified fee or fees not based directly upon transactions in a client's account is charged for investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisers) and the execution of client transactions.