

## Item 1 – Cover Page



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March 27, 2015

This ADV Part 2, our Disclosure Brochure, provides information about Highland's qualifications and business practices as required by the Investment Advisers Act of 1940.

If you have any questions about the contents of this Brochure, please contact Jeff Edgbert, Director of Operations at 425-739-6500 or via email at [jeff@highlandprivate.com](mailto:jeff@highlandprivate.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 Regulatory Authority.**

We are a registered investment adviser with the Securities and Exchange Commission. Our registration as an Investment Adviser does not imply any level of skill or training. The oral and written communications we provide to you, including this Brochure, is information you use to evaluate us (and other advisers) which are factors in your decision to hire us.

Additional information about our firm and our employees is available to you through the Securities and Exchange Commission's "public disclosure" website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

This brochure, dated March 27, 2015, contains three material changes when compared to our prior filing dated March 6, 2014.

- We have streamlined and clarified our investment management approach. We are differentiating more specifically between passively-managed and actively-managed investments. We explain our orientation toward lower cost, lower complexity, passively-managed investments as the primary framework of a liquid investment portfolio. We couple this with assessment, planning, and appropriate inclusion of more complex, higher cost, actively-managed investment elements where that fits the specific client's needs. We also provided some more explicit information about the types of risks present in investing. Please see Item 4 and Item 8 for more information.
- We previously described different fee options, including both our typical retainer arrangement and fees based on a percentage of assets under management. We have dropped the discussion of fees as a percentage of assets and provided some more detail about our retainer fees. Please see Item 5 for more information.
- We have clarified our brokerage practices, explained that we generally do not aggregate client transactions, and otherwise re-ordered this section to conform to the questions posed by the SEC's instructions concerning this brochure. Please see Item 12 for more information.

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## **Item 4 – Advisory Business**

### **Overview of the Firm and Principal Owners**

Highland Private Wealth Management, LLC was established and initially registered as an investment adviser in May of 1999. John C. Christianson, Highland's sole shareholder and managing member, serves as President and CEO. Our office is located in Bellevue, Washington.

### **Services Offered / Provided**

We provide advisory services to primarily West Coast-based high net worth and ultra-high net worth individuals and families. We specialize in serving executives and their families who are managing the complexities that accompany sudden wealth.

We use a comprehensive approach and divide our offerings into two broad categories: Investment Management and Wealth Advisory. We have a written advisory agreement with each client who receives our services. This agreement describes the specific services we will provide you, any limitations or restrictions, and the fees you pay us for our services.

### **Investment Management**

We work with you to create a strategy that aims to protect and build on your wealth. Using a goal-based portfolio management approach, we offer an efficient, cost-conscious method to add incremental value to your investments. We implement this by:

- Optimizing your portfolio based on your risk tolerance, holdings, and cash flow, rebalancing your portfolio when needed, advising you on tax implications, and helping you take the emotion out of your decisions. Our investment management services are implemented on a discretionary basis.
- Diversification and management of concentrated stock positions.
- Reviewing and being a soundboard for alternative investment opportunities (real estate, private companies, creating a new business), both from a strategic and allocation standpoint.
- Providing consolidated reporting of all your investment assets, including tax data.

Our investment advisory services are tailored to your individual needs and, to the extent necessary, we will work with you to implement any restrictions you may have with respect to certain types of investments or specific securities. Additional services beyond those described above are available based on client need and will be described in the advisory agreement, as applicable.

## **Wealth Advisory**

A key aspect of our wealth advisory role is developing a big-picture understanding of your financial goals and current situation. We help identify where gaps exist, help mitigate risk, and develop customized solutions aligned with your values and objectives.

Our Wealth Advisory services include comprehensive financial planning tailored to provide a single view of your financial health. We seek to build collaborative relationships with all of your other professional advisers (e.g., insurance agents, accountants, and attorneys) in the development and execution of your financial plan. With your consent, we may serve a coordinating role to help ensure that all of your advisers understand how the pieces fit together.

While we provide financial advice that takes into account general taxation principles and legal concepts, we do not provide, and are not qualified to provide, you with legal or tax advice. We encourage you to consult with your own attorney or tax professional to receive advice and guidance about your specific circumstances.

Our Wealth Advisory services include:

- Processes to define your goals
- Creating solutions for personal and financial growth that emerge from your goals
- Implementing a roadmap for achieving ideal outcomes through our Wealth Clarity System™
- Responding and adjusting to life transitions when they occur, such as career changes, marriage or divorce, children and trusts, aging parents, death of a loved one, health issues, and retirement
- Being available when you need wealth counsel and communicating in a way that makes sense

## **Assets under Management**

As of December 31, 2014, we had a total of \$439,632,065 of assets under management. \$408,936,809 were discretionary assets and \$30,695,256 were non-discretionary assets.

## Item 5 – Fees and Compensation

Fees for investment management and wealth advisory services are unique to each client and documented in the advisory agreement along with the related fees. We believe that our fees should not be one-size-fits-all, but instead should reflect the complexity of your circumstances, the composition of your assets, and the services that are most important to you. Our compensation is structured to reflect the depth of service and value provided to you.

We structure our fees as an annual retainer documented in the advisory agreement. We do not have a “standard” retainer fee schedule; retainers vary from client to client. Our process is to review client needs and the related complexity of work required, and to align our assessment with the client’s own values. We then prepare a proposal describing the retainer and related services in advance of the agreement. In general, we do assume that very large portfolios are inherently more complex to oversee than smaller portfolios, and our retainer fees for larger portfolios are often higher to reflect that. Our fees are not negotiable, though clients may choose to add or subtract services from the proposal, which will cause the retainer to increase or decrease accordingly.

We believe our fee structure is designed to minimize conflicts of interest and to enhance transparency. We also recognize that asset-based fees are common in the industry and that it’s possible a given client could receive similar services for more or less on an asset basis than we are charging on a retainer basis.

We are mindful of our fiduciary status and the importance of putting client interests ahead of our own. We have developed our approach with that understanding and have identified some possible conflicts of interest inherent in a retainer arrangement. We offer a description of these conflicts to ensure full and fair disclosure; we believe that our actual practice and the collaborative nature in which we identify those services the client values in light of our own professional judgement about what is important, mitigates any conflicts that might arise.

We see the possible conflicts of the retainer arrangement as mainly issues of relative value and shared understanding of services. With a retainer we have a financial incentive to locate complexity and to charge for it accordingly. The client’s perceptions of that may differ from ours and the fact that we often have more specialized knowledge in these matters may lead a client to accept our judgment and pay more than they otherwise would have if the fee were presented simply as an asset-based charge. Also, while the standard asset-based fee creates an incentive for advisors to take greater—perhaps unnecessary—risk to increase overall asset size, a retainer arrangement lacks direct incentive for us to increase overall asset size. The other side of that is that the traditional asset-based fee creates an incentive for advisors to keep a client’s assets in the managed accounts (i.e., in billable assets). This could affect the advisor’s advice

related to debt pay-off, real-estate transactions, or philanthropic or personal distributions that reduce the client's overall assets under the advisor's management. We think a retainer arrangement effectively eliminates this issue.

We bill our fees quarterly, in advance. At inception, fees for partial periods will be prorated from the date of the agreement through the end of the calendar quarter. For agreements that are terminated during the quarter, we will promptly refund the unearned portion of that quarter's prepaid advisory fee on a pro-rata basis. Our agreements provide for a 30-day termination notice. At termination, we may mutually agree to perform certain actions or transactions needed to accomplish an orderly transition away from Highland.

**Fee Payment:** Subject to your written authorization in the advisory agreement, we will deduct fees directly from the account held by your broker / custodian (see Item 10). We will also provide you with a detailed billing statement which shows your actual fee charged.

#### **General Information on Advisory Services and Fees**

- Official record of your account(s): Your third party, qualified custodian (e.g. bank, broker, trust company, insurance company, mutual fund complex) is the "official" record keeper of your account data and information, including market value, cost basis, and capital gains and losses. As a result, although we try to manage tax lots in taxable portfolios for long-term gains or losses, your custodian will ultimately determine how tax lots are recorded and what information is reported to the IRS. Please contact your relationship manager to discuss tax lot management or if you have questions about how your custodian is reporting specific items.
- Additional fees or expenses: Your portfolio may incur other fees and expenses in addition to those you pay Highland for wealth management services. These fees are separate from, and in addition to Highland's fees. They may include trade commissions, custodial or transaction fees, and third-party manager fees, and are paid directly to the custodians, brokers and third-party managers as disclosed to you by account agreements, trade confirmations, and prospectuses. Client assets may be invested in mutual funds, including open-end and closed-end mutual funds and exchange-traded funds, as well as other types of pooled investment vehicles, which generally pay an investment management fee, separate from our advisory fees, to another investment adviser.
- Our services are available to family members and friends of our employees at no fee or at fee schedules which are not available to our non-family / friend clients.

Please see Item 12 - Brokerage Practices, for additional information and disclosure related to other costs you may incur.

### **Item 6 – Performance-Based Fees and Side-By-Side Management**

We do not charge advisory fees on a share of the capital appreciation of the funds or securities in client accounts (“performance-based fees”). Our advisory fee compensation is charged only as disclosed above (Item 5).

### **Item 7 – Types of Clients**

We provide our services to the following types of clients:

- Individuals and families
- Retirement and education accounts (IRA, 401(k), 529 plans)
- Private entities owned by our individual clients (e.g. partnerships, LLCs)
- Trusts and private foundations

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

Highland’s investment committee is responsible for all decision making regarding investment philosophy, strategy, and portfolio construction. The core philosophy of our investment strategy is wealth preservation and diversification. This is implemented through a combination of historical asset class performance data analysis and forward looking qualitative analysis. The investment committee also considers client goal alignment and appropriate risk-adjusted returns. Once the asset allocation decision has been made, we employ primarily passive (index) strategies, along with some active management, as we deem appropriate. Our goal is to create the best risk and return profile, based on your unique goals and objectives and portfolio constraints.

Our approach takes into account that the world of investing is driven by two, seemingly competing, philosophies:

- Indexers believe the financial markets are efficient and that effective investing means a responsible but passive approach. This can be summarized as, “Stick your money in index funds and let them do the work.”



- Active managers believe the markets are not always efficient, and that taking an active, diligent approach will result in higher gains because you can take advantage of market inefficiencies.

Index investors typically benefit from low expenses, turnover, and tax costs. Active investors pay more overhead, but the assumption is that those added costs more than pay for themselves over time, because managed funds should outperform after fees. There is substantial research indicating that most active managers do not achieve sustainable outperformance over time. Given the additional cost and complexity of many active management strategies, we believe the decision to include them (and how to do so most effectively) is critical.

In our view, there can be benefits to both strategies that aren't necessarily mutually exclusive. There are many factors to consider including your comfort with complexity, and the liquidity of your investments. The higher your performance expectations, the more important it is to think carefully about potential costs, due diligence requirements, and the reporting needs that tend to come with complex investments. We see our job as taking responsibility for these evaluations and for determining which approach—or what mix of approaches—is most likely to serve you well over time.

### **Risks of Particular Asset Classes, Types of Investments, and Strategies**

While we may purchase individual stocks and bonds for clients, in most cases we invest in exchange traded funds (“ETFs”) or mutual funds to obtain exposure to equities, fixed-income markets, foreign securities, commodities, real estate, natural resources, and other asset classes. While we describe the risks of ETFs generally, the other risks described below will in most cases also apply to the underlying assets of a specific ETF or mutual fund.

- **Exchange Traded Funds.** Exchange-traded funds (“ETFs”) are funds bought and sold on a securities exchange that attempt to track the performance of a specific index (such as the S&P 500), a commodity, or a basket of assets (such as a set of technology-focused, country-specific, or other sector-specific stocks). The risks of owning an ETF generally reflect the risks of owning the underlying securities they are designed to track, although lack of liquidity in an ETF could result in its value being more volatile than the underlying securities. ETFs have management fees that increase their costs. ETFs are also subject to other risks, including: (i) the risk that their prices may not correlate perfectly with changes in the underlying index; and (ii) the risk of possible trading halts due to market conditions or other reasons that, in the view of the exchange upon which an ETF trades, would make trading in the ETF inadvisable.

- **Common Stocks and Equity-Related Securities.** Prices of common stock react to the economic conditions of the company that issued the security, industry and market conditions, as well as other factors, and may fluctuate widely. Investments related to the value of stocks may rise and fall based on an issuer's actual and anticipated earnings, changes in management, the potential for takeovers and acquisitions, and other economic factors. Similarly, the value of other equity-related securities, including preferred stock, warrants and options, may also vary widely.
- **Small- and Mid-Cap Securities.** Securities of small-cap issuers may present greater risks than those of large-cap issuers. For example, some small- and mid-cap issuers often have limited product lines, markets, or financial resources. They may be subject to high volatility in revenues, expenses and earnings. Their securities may be thinly traded, may be followed by fewer investment research analysts and may be subject to wider price swings and thus may create a greater chance of loss than when investing in securities of larger-cap issuers. The market prices of securities of small- and mid-cap issuers generally are more sensitive to changes in earnings expectations, to corporate developments and to market rumors than are the market prices of large-cap issuers.
- **Foreign Securities.** The securities markets of many foreign countries, including emerging countries, have substantially less trading volume than the securities markets of the United States, and securities of some foreign companies are less liquid and more volatile than securities of comparable United States companies. As a result, foreign securities markets may be subject to greater influence by adverse events generally affecting the market, by large investors' trading significant blocks of securities, or by large dispositions of securities, than as it is in the United States. Further, many foreign governments are less stable than that of the United States. There can be no assurance that any significant, sustained instability would not increase the risks of investing in the securities markets of certain countries. While we typically gain exposure to foreign markets through ETFs, funds, or similar pooled vehicles rather than investing directly in foreign securities, the limited liquidity of some foreign markets may affect our ability to acquire or dispose of securities at a price and at the time we think is advisable. We may also obtain exposure to international markets through debt instruments with multi-national banks. These securities pose the risks associated with domestic fixed-income securities, as well as the risks posed by foreign securities. Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Fixed Income Securities.** Prices of fixed income instruments (e.g., bonds) can exhibit some volatility and change daily. Investments in fixed income instruments present numerous risks, including credit, interest rate, reinvestment and prepayment risk, all of which affect the price of the instruments. For instance, a rise in interest rates will generally cause the price of bonds to go down. If the security is held to maturity and the issuer does not default, the client should receive the face amount of the bond at the

maturity date, as well as stated interest payments while the bond is held. In this case, the change in price prior to maturity may not affect the client. If the client needs to sell prior to maturity, however, the investor would likely experience a loss. Where a client's fixed income exposure is to bond funds or fixed-income ETFs, the fund or ETF does not itself "mature," although different issues held by the fund/ETF will mature and will experience price fluctuations. Investors are therefore highly dependent on the manager's ability to accurately anticipate the impact of rate changes and to appropriately manage the portfolio to achieve both adequate returns and reasonable risk. The US has experienced a prolonged period of historically low interest rates; future increases in rates could have a material negative impact on the value of current fixed income holdings. In addition, the value of fixed income instruments may decline in response to events affecting the issuer, its credit rating or any underlying assets backing the instruments. For corporate bonds prices may be especially sensitive to developments affecting the company's business and to changes in the ratings assigned by rating agencies. The prices of high-yield, fixed income securities fluctuate more than high-quality debt issues. High-yield securities can experience sudden and sharp price swings due to changes in economic conditions, stock market activity, large sales by major investors, default, or other factors. In the event of a default, the investment may suffer a partial or total loss.

- **Alternative Strategy Mutual Funds/ETFs.** Certain mutual funds or ETFs invest primarily in alternative investments and/or strategies. Investing in alternative investments and/or strategies may not be suitable for all investors and involves special risks, such as risks associated with commodities, real estate, leverage, selling securities short, the use of derivatives, potential adverse market forces, regulatory changes and potential illiquidity. There are special risks associated with funds that invest principally in real estate securities, such as sensitivity to changes in real estate values and interest rates, and price volatility because of the fund's concentration in the real estate industry.
- **Private Placements (*unregistered hedge funds, private equity or debt, other private funds*).** These investments are exempt from registration under federal securities laws, may have limited or no transparency as to the underlying investments, and are generally available only to "accredited" or "qualified investors," who are assumed to be sophisticated purchasers who have little or no need for liquidity from such investments, and are able to withstand the loss of some or all of their investment. Limitations on withdrawal rights and non-tradability of interests create higher liquidity risk and such securities should be viewed as long-term investments. Clients do not have access to public information, and the securities purchased are deemed restricted, are not traded on a secondary market or exchange and the instrument is thus illiquid. Partnership and fee expenses may be a higher percentage of net assets than traditional investment

strategies and may include performance or incentive fees. The duration of private fund investments with longer-term securities are more sensitive to interest rates and include the possibility of more volatility than other investments. This is not an exclusive list of potential or actual risks in any particular private placement. We do not recommend private placements but we will review offering documents and provide asset allocation input, where desired by the client. Clients must execute separate subscription documents to invest in private placements.

- **Options/Derivatives:** Purchasing a long option gives the buyer the right, but not the obligation, to buy or sell a particular security at a specified price before the expiration date of the option. When an investor writes (or sells) an option, if the buyer exercises the option prior to expiration, the investor is obligated to deliver to the buyer of the option a specified number of shares, a pre-determined price per share, or the calculated money difference. The seller receives a premium in exchange for writing the option. The potential loss on short (naked) call options is hypothetically unlimited and this is not a strategy we employ (we generally limit our options activity to writing covered calls), but may be used by ETFs, funds, or third party managers we select. Options are wasting assets and expire at pre-determined dates. Commission charges for options transactions may be higher than the charges assessed for other assets, such as individual equities.
- **Market Liquidity Risks.** The value of securities held in client accounts that are traded on exchanges and the risks associated with holding these positions vary in response to events that affect asset markets in general. Market disruptions such as those that occurred in 1987, in 2001, 2008, and the “Flash Crash” in May 2010 (the biggest one-day point decline, 998.5 points, on an intraday basis in Dow Jones Industrial average history) could lead to violent price swings in securities held within client portfolios and could limit the ability to buy or sell securities. Liquidity risks can result in substantial losses.
- **Highly Volatile Markets.** The prices of financial instruments can be highly volatile. Prices are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. Clients are also subject to the risk of failure of any of the exchanges on which their positions trade or of its clearinghouses.
- **Short Selling.** We do not typically employ short selling in our client portfolios but funds or ETFs purchased for clients may use short selling. We may also use short funds or ETFs on a limited basis in client portfolios. Short selling involves selling securities which are not owned and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit

from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the client of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position are available for purchase at or near prices quoted in the market. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

- **Manager Risk.** We may recommend or utilize the services of other registered investment advisers in the management of client accounts. ETFs and mutual funds we select are also ultimately managed by third parties. Third-party investment advisers who have been successful in the past may not be successful in the future; they may deviate from their stated investment mandate or strategy; and since we does not control the third-party investment adviser, we may not be able to fully identify internal control weaknesses or fully evaluate the accuracy of representations made by such investment advisers when performing due diligence on them.

Highland prides itself in working closely with clients to do the best job possible of aligning their risk tolerance with the specific investments we recommend. We also take the time to educate clients on the potential upside opportunities and downside risks of particular strategies and investments. That said, investing in securities through Highland (or any financial services professional) involves risk, including the potential for partial or entire loss of your investment. Although we do our very best to meet your goals, objectives and risk tolerance, we do not directly or indirectly assure you of any level of performance or investment return or guarantee that we will be able to meet your objectives.

### **Item 9 – Disciplinary Information**

As of the date of this Brochure, we do not have any items to disclose to you about Highland or any of our management persons (executive officer or person with a similar status or responsibility).

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

As of the date of this Brochure, we do not have any other financial industry activities or affiliations to disclose to you for Highland or our management persons.

## **Item 11 – Code of Ethics**

Highland has adopted a Code of Ethics which applies to all persons in our firm. It describes our fiduciary duty to our clients, our standards of business conduct, and our policies on a wide range of topics including information privacy and security, electronic communications (including social media), giving and receiving gifts and gratuities, political contributions, and employee trading. All Highland personnel must acknowledge the terms of the Code annually, and adhere to it every day.

We follow our own advice. As a result, we permit our employees and their family members to invest in the same securities that we recommend to you. However, we may choose to own securities that we don't recommend to you, due to individual risk assessment, appropriateness for our employee or family account and/or lack of suitability for you. We may also recommend the purchase of securities for you that Highland and its employees would not purchase in its own accounts, for these same reasons.

Employees may choose to give Highland trading discretion over their personal accounts, in which case they are treated as client accounts, and traded with them. Otherwise, Highland employees may not place trades in their accounts until all client transactions have been completed for the day. Such employee trades must be pre-approved by our Chief Compliance Officer or their designee.

Policies and procedures within our Code, including the disclosure and ongoing monitoring of beneficial securities accounts in our employees' households, are designed to ensure that the trading activity of Highland staff does not conflict with our recommendations to you, our fiduciary duty or violate securities law. If you would like a copy of our Code, please contact our Director of Operations, Jeff Edgbert at 425-739-6500 or [jeff@highlandprivate.com](mailto:jeff@highlandprivate.com).

## **Item 12 – Brokerage Practices**

### **Recommendation of a Broker / Custodian; Factors Considered in our Recommendations**

Although we occasionally work with other broker/dealers and custodians, we recommend the following firms to our clients who need such services:

Charles Schwab & Co. Inc. ("Schwab"), and  
Fidelity Investments ("Fidelity")

We have independently evaluated each broker and the services that are available to our clients, and determined as a result that the following items are of value to both Highland and our clients when compared to other brokers or custodians:

- Mix of brokerage execution services
- Reasonableness of compensation (low commissions and other charges)
- Research availability
- Variety of securities that can be purchased or sold (including a large number of mutual funds) on a load waived or no-load basis, with many also on a no-transaction fee basis
- Access to mutual funds or other vehicles that are otherwise generally available only to institutional investors, or would require a significantly higher minimum initial investment
- The fact that these recommended brokers do not charge for custodial services for assets held at Schwab and Fidelity

We primarily (but not exclusively) recommend Schwab.

We participate in a program called “Schwab Advisor Services” which is sponsored by Schwab and made available to Highland and other investment advisers. We also participate in a similar program sponsored by Fidelity called Fidelity Institutional Wealth Services. By participating in these programs, and through custody of client assets with them, Highland receives access to tools and services, such as:

- Software and other technology that provides access to client account data
- Facilitation of trade execution and the allocation of blocked orders for multiple accounts
- Research, pricing and other market data
- The payment of Highland’s fees directly from your account, if authorized in your advisory agreement
- Assistance with back-office functions, recordkeeping and client reporting
- Services related to the management and development our business, such as compliance, legal, and business consulting
- Educational events or occasional business entertainment of our employees

The software, technology, and account access these custodians provide creates an operational and compliance benefit for Highland that does not necessarily translate directly into a client benefit. While we believe that both Schwab and Fidelity are quite competitive and provide good value to our clients overall, the efficiencies provided to Highland create an incentive for us to recommend these custodians over others. In some cases, this means that clients could pay more for custody and execution through the custodians we recommend than through others.

We review the capacities and costs of these custodians regularly to ensure that our clients are receiving quality executions and competitive pricing, as well as more intangible service benefits.

### **Special Circumstances**

We may assist some of our clients with opening and maintaining brokerage accounts for which we have ongoing reporting and monitoring responsibility only; we do not exercise brokerage or investment discretion over these accounts (“non-discretionary accounts”). However, although the client maintains sole trading authority, Highland may place specific transactions as an accommodation for these clients at their request.

### **Third Party Money Managers**

As described above, in some cases we may select third party money managers (TPMM) to advise on a portion of your assets. TPMMs will typically place all transactions for your account at your broker / custodian, subject to their obligation to you to seek best execution. As custodians typically charge fees for transactions settled to your account(s) which are placed with outside brokers (“trade-away transactions”), TPMMs will most often choose your custodian as the broker who provides the best execution on a specific transaction when they evaluate best execution considerations versus the trade-away fee. However, TPMMs may choose to trade away from your custodian when they believe (in their sole determination) that doing so is in your best interest. As a result, in addition to the trade-away fee described below, you may pay an additional fee to the broker/dealer used for your transactions.

### **Commissions & Other Custodian Compensation**

Schwab and Fidelity receive compensation through account holder commissions and other transaction-related fees for securities trades executed by them or settled into your accounts. In certain circumstances, Schwab and Fidelity will receive asset-based compensation (“asset-based pricing,” or “ABP”) in lieu of trade commissions for an account, subject to a separate agreement signed by the client for that account. This applies to clients using third party managers whose trading frequency makes the normal commission charges unduly expensive.

Schwab and Fidelity, in the programs they provide to advisers like Highland, establish flat commission charges for various types of securities transactions; we generally do not negotiate the commissions you pay on a transaction-by-transaction basis. As a result, the accounts we establish on your behalf with Schwab and Fidelity will be assessed these transaction charges. We may negotiate per-share or per-transaction commissions with Schwab or Fidelity, in certain unique circumstances and on an exception basis.



Highland has negotiated confidential pricing schedules with Schwab and Fidelity for its client accounts, which we provide to our clients in a separate document. Commissions you pay to Schwab or Fidelity, if any, are disclosed on the confirmation of each security transaction we place on your behalf. These confirmations are sent directly to you by Schwab or Fidelity and we receive a copy of them.

Certain mutual funds we purchase or sell for your accounts are made available on a no-load or load-waived basis. In addition, certain mutual funds are made available for no transaction fee; as a result the confirmation may show “no commission” for a particular transaction.

### **Directed Brokerage**

Because we recommend certain custodians and then execute your investment transactions through those custodians on a discretionary basis, we are effectively requiring that you “direct” your brokerage to Schwab or Fidelity, absent other specific instructions as discussed below. Because we are not choosing brokers on a trade-by-trade basis, we may not be able to achieve the most favorable executions for clients and this may ultimately cost clients more money. Not all investment advisers require directed brokerage.

We do not use, recommend, or direct activity to brokers in exchange for client referrals.

We do permit clients to direct us to use brokers other than the custodian. If you choose to do this, we will likely have little or no ability to negotiate commissions or influence execution price, and you will also not benefit from any trade aggregation we may implement for other clients. This may result in greater costs.

If you would like to direct brokerage to a broker / custodian other than Schwab or Fidelity, we will consider that request on a case-by-case basis.

### **Aggregated or Block Transactions**

In most cases, we do not aggregate client transactions. When we decide to do so, trades will only be aggregated (or blocked) with those of other client accounts at Schwab or Fidelity. This may limit our ability to negotiate price and obtain volume discounts that may be available for larger, blocked trades. As a result, we may not achieve the most favorable executions and ultimately, this may cause you to pay higher overall costs for execution services.

Our block trading would typically be limited to broad changes in our asset allocations or change in recommendation of a widely-held security, and where we believe there are significant potential benefits to overall execution quality by aggregating client orders.

Should we choose to place a block transaction, we will issue instructions to purchase a particular number of shares or face amount of a security (stock, bond or exchange traded fund) and all participating clients and their pro-rated shares of the block are known at the time of the transaction. Should we not receive the full amount of the request, or if multiple executions are required, the following apply:

- If the full amount we requested is not obtained (and we determine to stop trading), we will pro-rate the purchased shares equally across all participating accounts. However, if employee transactions are included in the block and only a partial fill is completed, employee transactions are excluded (per our Code) until all client trades are completed.
- If multiple fills occur to complete the full block, then all purchases are averaged to price and each participating client receives their full allocation at that average price.

## **Item 13 – Review of Accounts**

### **Reviews and Reviewers**

Highland's investment professionals review each client account monthly, if not more frequently. Accounts are also reviewed indirectly by our portfolio managers and relationship managers through our daily monitoring of securities held by or recommended to clients. Reviews may also be conducted if there are changes to your personal circumstances which cause a change in your strategies, risk tolerance or investment policy. Additional reviews may be conducted during periods of significant global or economic events and as you may request.

### **Reports**

Our clients have on-demand access to written investment summary reports via electronic delivery. Account information is available daily to all clients; certain performance reports are available quarterly. In addition, depending on the services we agree to with you, we may provide additional comprehensive reports and related reviews of these reports on a periodic basis (e.g., semi-annually or annually).

These reports are in addition to and separate from the statements you receive from your broker(s) or custodian(s). Highland uses Black Diamond Performance Reporting as a strategic outsource partner to aggregate and record client portfolio activity and measure and report portfolio performance. Highland's investment professionals and relationship managers review these reports.

Our reports include the following:

- Computation of investment returns for the report period
- Strategy benchmarks to assist in assessing relative performance
- Asset allocation
- Summary of assets held in the account or under our management
- Current market value and cost basis (although the custodian is the official record-keeper of cost basis information)

We urge you to carefully compare the information on your custodial statements / reports to those provided by Highland. You may note nominal differences in the total portfolio value provided by your custodian when compared to our reports. This is common and can be caused by many issues, including:

- Owed but unpaid accrued interest on fixed income securities
- Trade date versus settlement date reporting
- Pricing differences (Black Diamond will use the services of an independent third party pricing service such as IDC to validate the pricing of liquid securities in your portfolio if variances occur)
- Dividends that have not yet been paid
- Manually priced securities included on our reports (and not held by your custodian)

Please notify us or your custodian immediately if believe there is a discrepancy between the Highland report and the custodian's statement, or if you do not receive a monthly statement directly from your custodian.

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

### **Client Referrals**

We do not pay any entity or person, directly or indirectly, for client introductions or referrals.

### **Other Compensation**

Highland recommends both Schwab and Fidelity as brokers / custodians. Schwab and Fidelity are independent, third party, qualified custodians; we are not affiliated with either firm.

Highland receives economic benefits through participation in their institutional service programs (see Item 12, Recommendation of Broker/Custodian). Although these tools and services may not directly benefit each client account, they do assist in the efficient and effective operation of our business, which we believe benefits all Highland clients. Please factor in these benefits provided to Highland when selecting your broker/dealer/custodian.

### **Item 15 – Custody**

Highland does not have physical possession of any Client's funds or securities. We do directly debit advisory fees from your custodial account based on your written authorization to do so. We urge you to carefully compare the reports we provide you with those you receive directly from your custodian, realizing that the official record of your account activity is the custodial report and not ours.

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

As indicated under Item 4, above, we provide investment management / private wealth management services to you on a discretionary basis. Our investment discretionary authority is authorized in the written agreement we have with you and may be updated as you determine; however, we require that you provide all limitations or restrictions in writing.

### **Item 17 – Proxy Voting**

Highland does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in their portfolios or accounts. If you request, we will provide information or our professional insight into various matters related to your proxies. Certain third party money managers may retain the authority to vote proxies in accounts they manage for you, subject to their stated policies.

Corporate Actions: If requested, we will provide advice and input on corporate actions, especially in the cases where there are options to receive cash payments or retain ownership.

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

Highland does not have any financial commitment that impairs our ability to meet contractual and fiduciary commitments to our clients. In addition, neither Highland nor its management persons have been the subject of a bankruptcy proceeding.