

# SMITH HAYES

**Advisers, Inc.**

Registered Investment Adviser

## Firm Brochure

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### Item 1 – Cover Page

*This brochure provides information about the qualifications and business practices of SMITH HAYES Advisers, Inc. (“SHAI”) as required by Part 2 A of Form ADV. Form ADV is the form we file to register and be licensed to do business as investment advisers and comply with federal and/or state securities laws. The information presented is responsive according to the sequential “Items” of the form. If you have any questions about the contents of this brochure, please contact us at the numbers above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any State Securities Authority.*

*Additional information about SMITH HAYES Advisers, Inc. also is available through the SEC’s website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) (click on the link, select “investment adviser firm” and type in our firm name). Through this link you will be able to obtain our entire Form ADV.*

*We are registered as an investment adviser with the SEC. Our federal registration does not imply any level of skill or training. The oral and written communications we provide to you, including this Brochure, is information that you should use to evaluate us (and other advisers) to hire us or to continue using our services.*

## Item 2 – Material Changes

This Firm Brochure contains some disclosures required by regulatory rules. You may recognize some of the disclosures as similar or identical to what you have read in the past. In future versions of the Brochure, this section of the Brochure will address “material changes” that have been incorporated since our last amendment.

We may, at any time, update this Brochure and if we do we will either send you a copy or offer to send you a copy (either by electronic means (email) or in hard copy form). If you would like another copy of this Brochure, please download it from the SEC Website as indicated on the Cover Page or you may contact our Chief Compliance Officer, K. Randy Hood.

- Effective January 2015, the Advisory I and II accounts have a minimum asset requirement of \$50,000. (page 4)
- Effective March 31, 2015, SHAI updated its assets under management. (page 2)

## Item 3

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## **Item 4 Advisory Business**

SMITH HAYES Advisers, Inc. (“SHAI”) was incorporated in 1997. We and our affiliated broker dealer, SMITH HAYES Financial Services Corporation (“SHFSC”), are wholly owned subsidiaries of SMITH HAYES Companies. Thomas C. Smith is the principal owner of SMITH HAYES Companies. SHFSC is registered as a broker dealer and became a member of Financial Industry Regulatory Authority (“FINRA”) in 1985. SHFSC shares offices with us in Lincoln, Omaha and Columbus, Nebraska. Our licensed investment adviser representatives (IARs) are also licensed as registered representatives of SHFSC and are located primarily in our offices in Lincoln, Omaha and Columbus, Nebraska.

We generally provide “Investment Supervisory Services”, however we also provide services not constituting investment supervisory services. We define Investment Supervisory Services as giving you continuous advice about securities and making investments for you based on your individual needs. When you use any of our investment advisory services, you will sign an agreement that will describe the type of services we will provide and the fees charged. A summary of our different agreements appears later in this section.

We provide our services to:

- Individuals and Families
- Pensions, 401(k) plans and profit sharing plans
- Trusts
- Estates
- Foundations
- Charitable organizations and Non-Profits
- Banks
- Businesses operating as partnerships, corporations and limited liability companies
- State and other local governmental entities

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### **Tailored Relationships**

Your goals and objectives are documented in our client management files. You may always impose restrictions on how we advise you and if we have discretion to trade for you, limit our ability to affect trades and otherwise make investments for you in certain securities or types of securities.

When we establish a relationship with you, we meet with you and may assess and determine, as applicable, your

- financial objectives
- financial problems
- cash flow needs
- insurance programs
- needs for educational funding
- retirement plans and/or entity succession.

We are not lawyers or accountants, however at your direction we will work with your other professionals as needed.

In implementing our investment advice for you, our agreement will provide that we may do so on a discretionary basis (we decide what and when to buy or sell) or on a non-discretionary basis (you tell us what and when to buy or sell). You decide what authority we have. In most cases, your securities transactions will be placed through SHFSC under a limited power of attorney. We generally do not recommend broker/dealers other than SHFSC, but will do so if SHFSC cannot effect a trade for your account, or if you ask us to.

As of 12/31/2014, we managed approximately \$2,212,100,058 in assets for 1946 accounts. Approximately \$1,038,073,595 is managed for 1608 accounts on a discretionary basis and \$1,174,026,463 is managed for 338 accounts on a non-discretionary basis.

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### **Types of Agreements**

The following agreements define our typical client relationships.

- Annual Financial Planning & Consulting Agreement
- One-Time Financial Planning & Consulting Agreement
- Advisory I
- Advisory II
- Managed Account Solutions Platform
- Advantage I
- Advantage II
- Qualified Plans Investment Advisory Services Agreement
- Self Directed 401k Participant Advisory Agreement
- Self Directed 401k Plan Sponsor Advisory Agreement

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### **Financial Planning & Consulting Agreements**

Under our **Annual Financial Planning & Consulting Agreement** we prepare an annual written financial plan for you, which typically will address the topics of Portfolio Review & Investment Planning; Retirement Planning; Insurance

Planning; Tax Planning; Education Planning; Estate Planning and Debt and Finance Planning. Detailed investment advice and specific recommendations are provided as part of a financial plan. Implementation of the recommendations is at your discretion. After delivery of a financial plan, future face-to-face meetings may be scheduled with you as necessary by the Investment Adviser Representative ("IAR") associated with your account. Fees for financial planning services may be included in the asset management fee you pay on a quarterly basis, or if you agree in writing the financial planning services fees may be charged separately depending on the services you ask for and that we provide you. This fee is negotiable.

Under this Agreement we may also provide consultations when you do not need a written financial plan. Consultations are limited and are in response to questions about particular investments or financial planning issues.

For these services, we charge an hourly fixed fee. Hourly fees range between \$100 to \$300 per hour, depending on your IAR, with a minimum charge of one hour and you will pay \$500 of the fixed fee at the time the agreement is executed. These fees are negotiable. Any unpaid amount will be immediately due upon the completion of the consultation. If you do not pay fees within 30 days of receiving the invoice, you will incur a service fee of 1% per month (12% interest per annum) on the outstanding balance until paid. In this event, we will send you a monthly statement detailing the outstanding fees and interest accrued.

To the extent we provide you with investment recommendations as part of our financial planning services and you implement such investment recommendations through us and/or SHFSC and/or other broker-dealers or custodians you use, the fee for the services will generally be waived unless you agree otherwise in writing to compensate us for financial planning that extends beyond management of your investment portfolio at SHAI.

Under our **One-Time Financial Planning & Consulting Agreement** we prepare a one-time written financial plan, which typically addresses the topics of Portfolio Review & Investment Planning; Retirement Planning; Insurance Planning; Tax Planning; Education Planning; Estate Planning and Debt and Finance Planning. You may also elect a one-time modular written financial plan, which only covers specific areas of concern. You will pay the lesser of the fixed fee or \$500 at the time the agreement is signed. Any unpaid amount is due upon completion and delivery of the financial plan. This may also involve us providing a one-time consultation when you do not need a written financial plan or as needed consultations which are limited and in response to issues you may raise. An hourly fee or a fixed fee will be charged. An hourly fee at the rate of \$100 to \$300 will be charged, depending on your IAR, with a minimum charge of one hour. If you elect to pay a fixed fee, you will pay \$500 at the time the agreement is executed. Any unpaid amount will be immediately due upon the completion of the consultation. If you do not pay any outstanding fees within 30 days of receiving the invoice, you will incur and owe a service fee of 1% per month (12%

interest per annum) on the outstanding fees. In this event, we will send the client a monthly statement detailing the outstanding fees and accrued interest.

To the extent we provide you with investment recommendations as part of the financial planning services designated above and you implement such investment recommendations through us, the above fee for the services will generally be waived unless you agree otherwise in writing to compensate us for financial planning that extends beyond management of your investment portfolio at SHAI.

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### **Advisory Agreements**

Most clients choose to have us actively manage their assets in order to obtain ongoing advice and asset management.

The scope of work and fee for an Advisory Agreement is provided to you in writing prior to the start of the relationship. An Advisory Agreement may include: insurance review; investment management (including performance reporting); education planning; retirement planning; estate planning; and tax planning, as well as the implementation of recommendations within these areas. The annual Advisory Agreement fee is based on a percentage of the supervised assets, and is dependent upon the agreement between you and your IAR.

**Advisory I and II accounts** are individually managed accounts and are charged a fee for the management and advice. Generally, these accounts are structured so that no commissions will be charged by SHFSC. However, you will pay charges for services imposed by your custodian and/or SHFSC's clearing firms, National Financial Services, LLC ("NFS"), TD Ameritrade Institutional, Division of TD Ameritrade, Inc., & TD Ameritrade Clearing, Inc. ("TD"), and Charles Schwab Advisor Services, Division of Charles Schwab and Co., Inc. ("CS"). You will also pay other transaction related charges imposed by the custodian(s) holding your assets and/or the associated broker-dealer(s) associated with your account if not SHFSC.

The Advisory I and II accounts have a minimum asset requirement of \$50,000.

**Managed Account Solutions (MAS)** are accounts established as wrap accounts. The IAR and Platform Manager manage the program assets with the goal of meeting your specific objectives. These accounts are offered in conjunction with Envestnet Asset Management, Inc. (Envestnet). Envestnet provides the technology platform on which these accounts function and render investment advice to us and/or you, including recommending an appropriate asset allocation and specific investment managers or investment products. NFS provides trade execution and custodial services with respect to these accounts. Clients electing MAS will pay the fee stated in their investment advisory agreement. This fee is negotiable. A portion of this fee may be paid to Envestnet, NFS, and any applicable third party or sub-manager with the remainder being retained by us. The performance results of the investments will



be measured on a quarterly basis. Please refer to the MAS Wrap Program brochure for this account for more information.

**Advantage I and II accounts** are “wrap accounts” which are not presently open to new clients. Please refer to the Wrap Fee Brochure for more information.

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## **ERISA Plan Agreements**

The description of services for pension and profit sharing plans subject to the Employee Retirement Income Security Act (“ERISA”) in this section is in lieu of the discussion of services in other sections of this Brochure.

For ERISA plans, our services are limited to advisory and certain limited consulting services and do not include selection of other service providers or handling of brokerage activities or the selection of brokers to effect transactions. The advice provided by us is consistent with the plan’s investment policy. We work with the plan fiduciaries to determine the plan’s investment policy, consistent with the requirements of ERISA and the cash flow needs of the plan. As a part of our advisory services, we work with the plan fiduciaries to monitor the continued suitability of plan investment options, but we do not have discretion to select, remove or replace such options.

The fee to each plan or electing participant is equal to a percent of the assets held in the plan’s or participant’s account as of the end of each quarter. This fee is negotiable. Such fee will be prorated for partial quarters. To the extent we provide fiduciary services and receive any indirect compensation with respect to the investments in a plan or participant account, we will offset such amounts against our stated fee. Fees are generally remitted by the plan record-keeper/custodian out of plan assets, although a plan sponsor may elect to pay the fee directly. We do not receive any soft dollar compensation in connection with its services for pension and profit sharing plans or plan participants.

As discussed under “Performance Based Fees” and “Other Financial Industry Activities and Affiliations,” we and/or our affiliates manage certain investment partnerships and funds. None of these investments may be held by plan clients, except for shares of the Concordant Fund, which are held in several self-directed accounts as selected by the participants.

**Our Qualified Plans Investment Advisory Services Agreement** is between us and a client for services to an ERISA plan. We agree to provide the fiduciary and non-fiduciary investment services for the Plan(s) (the “Services”) specified in the agreement, provided that the client acknowledges that we have no responsibility to provide any Services with respect to employer securities, real estate (but not including mutual funds that invest in real estate securities or publicly traded REITs), participant loans, non-publicly traded securities (other than collective trusts and similar vehicles), other hard to value securities or assets, assets in individual brokerage accounts or any other assets specified in the agreement; and provided further that all such excluded assets shall be disregarded in determining the fees payable to us.

**Our Self Directed 401k Plan Sponsor Advisory Agreement** is an agreement between us and the Employer of an ERISA plan. The Employer agrees that one or more participants in the Plan wish to have us provide investment advisory services for their accounts in the Plan and that we will be entering into separate agreements with such participants. In providing such services, Employer acknowledges that SHAI will provide services only to those participants who sign a Participant Agreement, that as such, it will be a service provider to the Plan but that neither the Employer nor the Plan will have any responsibility or liability for our services under the Participant Agreements. There is no fee charged to the plan under this agreement.

**Self Directed 401k Participant Advisory Agreement** is an agreement between us and an electing participant of a Plan. We will generally exercise discretion over the participant's account based on a risk profile and discussion with the participant regarding investment objectives, time horizon and, where possible, outside assets. In those cases, we are responsible for making and implementing all investment decisions regarding the participant's account. In a few cases, we will provide the participant with non-discretionary advice for the investment of his/her funds in the Plan, and the participant may elect to follow the advice or chose to invest the funds in a different way. Under that arrangement, the participant is responsible for making and implementing all investment decisions.

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### **Termination of Agreement**

You may terminate any of the aforementioned agreements at any time by notifying us in writing and paying the fee for the time spent on the investment advisory engagement prior to notification of termination. If you make an advance payment, we will refund any unearned portion of the advance payment. At termination, fees will be billed on a pro rata basis. If your agreement provides for billing in arrears, then the portfolio value at the completion of the prior full billing quarter is used as the basis for the fee computation, adjusted for the number of days during the billing quarter prior to termination. If your agreement provides for billing forward, then your fee will be prorated and any unearned portion will be refunded.

We may terminate any of the aforementioned agreements at any time by notifying you in writing.

## **Items 5 and 6 Fees and Compensation; Performance-Based Fees**

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### **Description**

All fees are negotiable. We may charge fees on a percentage of assets under management, hourly charges, commissions (if agreed to in your advisory agreement) and/or fixed fees (not including subscription fees).

Financial plans are priced according to the degree of complexity associated with your circumstances and financial situation, the services provided and the experience of the IAR providing the services.

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**Fee Billing**

Investment management fees are billed quarterly, in *advance or arrears*, meaning that we invoice the client *before or after* the three-month billing period has *begun or ended*. Payment in full is expected upon invoice presentation. Fees are usually deducted from a designated client account to facilitate billing. You must consent in advance to direct debiting of your investment account.

One time financial plans are billed \$500 at the time the agreement is executed and with the balance due upon completion of the consultation.

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**Other Fees**

We, in our sole discretion, may waive our minimum fee and/or charge a lesser investment advisory fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, etc.). In other cases, we may charge a minimum fee of \$1000.00 per year for certain managed accounts when you agree to that fee in your advisory agreement. Similarly an initial fee of up to 1.5% of the net asset value of your account may be charged for more complicated situations. Such a fee is collected initially to properly consult with you or when the new account process is expected to require more IAR hours to complete. In addition to our fees, you may incur costs and expenses related to custody, brokerage and other transaction costs including commissions arising from the purchase and sale of securities for your account. If you are invested in mutual funds, you may incur direct and indirect expenses related to these investments. See Brokerage Practices for more information. In addition, from time to time, if you purchase certain new issue securities, such securities shall be excluded for purposes of assessing your advisory fee for twelve (12) months after the purchase of the security.

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**Past Due Accounts and Termination of Agreement**

You will incur and owe a service fee of 1% per month (12% interest per annum) on outstanding fees until paid. In addition, we reserve the right to terminate any financial planning engagement where you have willfully concealed or have refused to provide pertinent information about financial situations when necessary and appropriate, in our judgment, to providing proper financial advice. Any unused portion of fees collected in advance will be refunded within 30 days.

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**Performance-Based Fees**

Some advisors offer performance fees as an alternative. This is an optional method for those clients that meet certain qualifications. For those that do, and that elect this fee alternative, the fee is generally a percentage of the profits earned, sometimes only after a certain minimum return has been achieved. We do not charge a performance fee other than to clients of the Concordant Fund.

We are the managing member for the Concordant Fund. Fees for the Concordant Fund are a combination of percentage of assets under management and a

performance-based fee. Every member in the Concordant Fund pays a base annual fee equal to .7% of the assets in the Concordant Fund. If the performance of the Concordant Fund meets or exceeds its benchmark index, the S&P 500, the base fee increases to 1% of the assets in the Concordant Fund. If the annual performance of the Fund exceeds the S&P 500, an additional performance fee is allocated to us equal to 20% of the excess.

Fees and other expenses applicable to the Concordant Fund are described in detail in the Private Placement Memorandum which is only available to selected and accredited investors.

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### **Account and Fee Minimums**

The Advisory I and II accounts have a minimum asset requirement of \$50,000. Accounts may be subject to a minimum fee of \$250 per quarter or \$1,000 annually, unless otherwise approved by us.

MAS accounts are generally expected to have \$50,000 in investable assets. The Russell Wrap Strategist on selected models has a minimum of \$25,000 in investable assets. Please refer to the MAS Fee Schedule for specific charges.

Third-party managed programs generally have account minimum requirements that will vary. Account minimums are generally higher on fixed income accounts than equity based accounts. A complete description of the third-party investment advisor's services, fee schedules and account minimums will be disclosed in the third party investment advisor's Wrap Program Brochure, or similar Disclosure Brochure which will be provided to you at the time an agreement for services is executed and account is established. Reports will depend upon the third-party investment advisor.

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### **Other Compensation**

**Mutual Funds:** We may invest your accounts in mutual funds. The mutual funds are purchased through SHFSC under selling agreements between SHFSC and the mutual funds which permit SHAI clients to purchase them with no upfront sales loads or charges. An investment of your account in a mutual fund will result in a layering of fees. That is, the client will pay indirectly an investment management fee and other fees to the mutual fund's investment adviser and will also pay SHAI its investment advisory fee.

As a result of the investment of your account in mutual funds, additional compensation may be paid to SHAI and/or SHFSC or other broker dealers you have requested be used on your account in the form of "Rule 12b-1 fees" and/or "shareholder and/or administrative servicing fees." This compensation is not paid directly by you, but is paid by the mutual fund, the mutual fund's sponsor and or its distributor. However, to the extent that the compensation is paid by the mutual fund, the compensation is indirectly paid by the client. This compensation is paid to SHFSC or other broker dealers you have requested on your account for assisting the mutual fund, its sponsor and distributor in the distribution of the mutual funds and for providing certain other services.

The Rule 12b-1 fees and shareholder and administrative services compensation paid by Funds are described in the Mutual Funds' Prospectuses and Statements of Additional Information.

Additionally, in some cases mutual fund sponsors and distributors pay additional amounts to supplement what a mutual fund pays. These are required to also be disclosed by the mutual funds in their Prospectuses and Statements of Additional Information, although in many cases these are negotiated. The Rule 12b-1 and shareholder servicing and administrative services fees and supplements, if any, vary between mutual funds.

We may have an incentive and conflict of interest to recommend one mutual fund over another mutual fund as a result of the compensation paid to us by the various mutual funds. Our IARs may also be paid a portion of the compensation paid which also may create an incentive and a conflict of interest for them in recommending investments in their client's accounts. Notwithstanding such incentives and conflicts of interest, we recommend mutual funds to our clients based on, among other things, the client's investment objectives and directions, the comparative quality of the mutual funds management, mutual fund expense ratios and mutual fund performance.

You should read the Mutual Funds' Prospectuses and Statements of Additional Information regarding compensation paid by the mutual funds. More specific additional information about the compensation paid to us and SHFSC in connection with investments in mutual funds is available on request.

**Order Routing:** SHFSC routes all orders through our clearing firms, other than fixed income trades, which are executed with dealers we have trading relationships with and products available to fulfill our needs. We do not receive payment for order flow.

**Revenue Sharing:** SHFSC receives payments from certain investment advisers, distributors and other service providers to mutual fund companies, 529 plan programs, insurance companies and retirement plan providers (collectively referred to as "Product Partners"). These payments are commonly referred to as "Revenue Sharing" and are in addition to sales charges, annual distribution and service fees (referred to as "12b-1 fees"), applicable redemption fees, deferred sales charges, which are disclosed in the fee table in a fund's prospectus that we may also receive for selling the funds, maintaining client account information and providing other administrative services to the mutual funds. Because Revenue Sharing payments are not made by the mutual fund or otherwise included as a cost of your investment, they are not an additional charge to you.

At the present time SHFSC receives 5 basis points (0.005%) on No Transaction Fee ("NTF") mutual funds purchased through its clearing firm, NFS. While we do not receive such basis points for mutual funds purchased through our other clearing firms, we may receive such compensation in the future. A list of NTF Funds for which we receive Revenue Sharing, and the applicable percentage for each, is available on request.

Normally Revenue Sharing payments are determined on two components (i) the amount of sales by us of a particular mutual fund family to our clients, and (ii) the asset value of a particular mutual fund family's shares held by our clients at the clearing firm. The payments then are determined by applying an "applicable percentage" usually expressed in "basis points". The applicable percentage is subject to change but is usually around 5 basis points. None of the Revenue Sharing payments we receive are rebated to you or paid to your representative.

Revenue-sharing payments may present a conflict between our interests and those of our customers because the payments may give us a financial incentive to recommend that our customers buy and hold shares of those funds that we maintain on our distribution platform and for which we receive revenue-sharing payments.

**Other:** In addition to the payments described above, from time to time, mutual fund distributors and/or advisors will reimburse SHFSC or other broker dealers on your account for expenses we incur in connection with certain training and educational meetings, conferences or seminars. Also, in the ordinary course of business, our representatives may receive promotional items, meals or entertainment, or other similar "non cash" compensation from distributors with whom we do business.

## **Item 7 Types of Clients**

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**Please refer to our discussion of Advisory Business under Item 4 for a description of clients.**

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

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**Investing in securities involves risk of loss that you should be prepared to bear.**

### **Methods of Analysis**

Security analysis methods may include fundamental analysis, technical analysis or a combination of the two. We may use no load open and closed-end mutual funds, including exchange traded funds, which grant access to markets where we either cannot provide adequate expertise or you could not acquire sufficient corporate bonds, Real Estate Investment Trusts, or other specific investment products that address your investment needs. Our professional staff devotes time to investment research.

The main sources of information include financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases.

Other sources of information that we may use, but are not limited to, include Morningstar Principia mutual fund information, Morningstar Principia stock information, Bloomberg reports and OS&P Reports.

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## **Investment Strategies**

The investment strategy for you is based upon the objectives stated by you during consultations. We believe in ongoing communication with our clients in addition to monitoring markets and understanding your objectives. You may change your objectives at any time, and we invite you to contact us about your questions and changes.

Our investment process begins with getting to know you--our client so that we can understand your tolerance of risk, investment objectives, time horizon, cash flow needs, capital commitments, etc. We manage client portfolios using these factors to determine the appropriateness of each security and for trading those securities for your portfolio regardless of the custodian it may be held with.

You may seek efficient accumulation of wealth to meet personal goals or for philanthropic purposes over time, or you may seek conservation of assets for income generation for later distribution. To achieve those goals we may use stocks in individual companies, and or various fixed income securities such as US Government Treasury, Government Agency, Municipal, or Corporate bonds. We may use individual bonds, or where we cannot build adequate diversity, we may use mutual funds.

Other strategies may include long-term purchases, short-term purchases, trading (securities sold within 30 days), short sales, margin transactions and option writing. We rarely use derivatives or options unless it addresses a particular need in an account or to move a gain or loss into another tax period in taxable accounts.

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## **Risk of Loss**

All investment programs have certain risks that are borne by the investor. Investors can lose all of the money invested in securities. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.

- **Inflation Risk:** When any type of inflation is present, a dollar next year will not buy as much as a dollar today, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** 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.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

## **Item 9 Disciplinary Information**

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### **Legal and Disciplinary**

On January 24, 2005, we entered into a Consent Order with the Nebraska Department of Banking and Finance regarding an alleged violation of the Nebraska Securities Act Neb. Rev. Stat. § 8-111103(1) arising out of our failure to properly register six of our investment advisor representatives as investment advisor representatives in Nebraska in 2002, 2003, 2004 and 2005. The six investment advisor representatives in question were fully-qualified to engage in the activities of investment advisor representatives and have taken all required examinations. However, through an administrative oversight the registration applications had failed to be filed with the Department of Banking and Finance. In agreeing to the Consent Order, we paid a fine of \$1,500 for each of the representatives and paid all back registration fees for the investment advisor representatives. In addition, we agreed to take whatever action is necessary to insure compliance with provisions of the Nebraska Securities Act in the future.



## Item 10 Other Financial Industry Activities and Affiliations

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### Affiliations

We have arrangements that are material to our advisory clients with SHFSC. We and SHFSC are wholly owned by SMITH HAYES Companies. SHFSC is a registered introducing broker/dealer that may effect purchases and sales of securities on our behalf.

We and SHFSC are both registered Insurance Agencies.

SHFSC is registered as a Municipal Advisor with the SEC and MSRB.

In addition, Thomas C. Smith, Chairman of SHAI, is 50% owner of Midwest First Financial, LLC ("MWFF"). MWFF is the general partner of one real estate limited partnership in which some of our clients have invested.

We are the managing member for The Concordant Fund, a private equity fund available to selected qualified clients.

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

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### Code of Ethics

The Supervised Persons of SHAI have committed to a Code of Ethics. A copy of the Code of Ethics is available upon request.

The purpose of the SHAI Code of Ethics is to outline general standards of conduct for our employees. SHAI related persons may purchase investments that it recommends to clients. The Code of Ethics defines Access Persons and addresses the following: Confidentiality and Conduct, Conflicts of Interest and Reporting Requirements, and Gifts and Entertainment.

### Participation or Interest in Client Transactions

Our employees may buy or sell securities that are also purchased or sold by clients. Employees may not trade their own securities ahead of client trades. Employees comply with the provisions of the SHAI *Compliance Manual*.

Principal transactions with advisory clients are primarily limited to fixed-income investments. When appropriate and with the consent of the advisory client upon execution, transactions may be executed between the client and SHFSC acting in its dealer capacity. The client must receive disclosure information regarding pricing, best execution and possible conflict of interest when SHFSC acts in the capacity of principal prior to settlement of the transaction.

### Personal Trading

The Chief Compliance Officer of SHAI is K. Randy Hood. He or his designee, reviews employee trades. The personal trading reviews ensure that the personal

trading of employees does not affect the markets, and that clients of the firm receive preferential treatment.

## **Item 12 Brokerage Practices**

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### **Selecting Brokerage Firms**

Clients are generally directed to SHFSC for brokerage services. Not all advisers require clients to direct brokerage. SHFSC's primary third party clearing services provider, National Financial Services, LLC, provides SHFSC with trade execution and custodial services for most advisory accounts. We do business with several broker dealers, banks, trust companies and clearing firms including TD Ameritrade Institutional, Division of TD Ameritrade, Inc., & TD Ameritrade Clearing, Inc. and Charles Schwab Advisor Services, Division of Charles Schwab and Co., Inc. Some of these firms may provide research resources or compensation as part of the business relationship. The use of any particular broker dealer or clearing firm may limit the ability to provide best price and execution that could cost clients more money than if they placed the trade through another broker/dealer. Clients may incur additional transaction costs when over-the-counter trades are affected on their behalf through the broker dealer on an agency basis. SHAI generally does not receive fees and/or commissions from any of the broker dealer arrangements.

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### **Best Execution**

SHAI reviews monthly a sample of trades to verify best execution.

SHAI and SHFSC may execute cross transactions between an advisory account and a brokerage account. Cross transactions are not allowed where clients are "advised" on both sides of the transaction without prior approval from the clients on each side due to potential conflicts of interest; this includes solicited, discretion-exercised and advisory transactions. There is no commission charged to advisory clients in a cross transaction other than the investment advisory fee, unless otherwise agreed upon in writing. Clients will receive an annual summary of their cross transactions.

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### **Soft Dollars**

Sometimes investment advisors direct portfolio brokerage commissions to a particular broker/dealer in return for services and research used in making investment decisions in client accounts. The commissions used to acquire these services and research is known as "soft dollars." Section 28(e) of the *Securities Exchange Act of 1934* provides a "safe harbor" that allows an investment advisor to pay more than the lowest available commission for brokerage and research services if it determines in good faith that the commission paid was reasonable in relation to the brokerage and research services provided.

We generally do not direct brokerage to firms other than our affiliate, SHFSC unless necessary to meet the terms of our agreement with you, and we do not do so to receive soft dollar services. However if and when we direct trades for execution to other brokers in exchange for referrals, we will request that the commissions charged are at competitive rates for the execution and other services rendered. When we direct trades to other brokers, we may receive products and services in return that may be used for both research and non-research purposes. This may allow us to supplement, at no cost, our own research and analysis activities. These products and services can include, but are not limited to:

- Reports, publications and data on matters such as the economy, industries, sectors and individual companies or issuers, statistical information, account and law interpretations, political analyses, legal developments affecting portfolio securities, technical market actions, credit analyses, risk management and analyses of corporate responsibility issues
- On-line news services and financial and market database services
- Information management systems integrating quotation and trading, performance management, accounting, recordkeeping and document retrieval and other administrative matters
- Meetings, seminars, workshops and conferences with representatives of issuers, program sponsors and/or other analysts and specialists

Research obtained with soft dollars is not necessarily utilized for the specific account that generated the soft dollars. If we do this, we will not attempt to allocate the relative costs or benefits of research among clients because we believe that, in the aggregate, the research we might receive will benefit all clients and assists us in fulfilling our overall duty to clients.

In directing trades to broker/dealers that provide research products or services, we intend to rely on the safe harbor provided by Section 28(e) of the Securities and Exchange Act of 1934 and in so doing we will, when selecting and using such broker/dealers, make a good faith determination that the amount of commissions directed to the broker/dealer which is above commissions charged by other broker dealers not providing research products or services is reasonable in relation to the value of the research services received. Further, in making this assessment we will determine that the research products or services provide lawful and appropriate assistance to us in the discharge of our duties in managing client accounts.

These arrangements may be deemed to create a conflict of interest to the extent that we would have to pay for some or all of the research and/or services with

"hard dollars" if we were unable to obtain the research and services in exchange for commissions in connection with client transactions. Client trades will always be implemented based on the goals and objectives of the client and not on any research, products or other incentives available.

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**Order Aggregation**

SHAI may aggregate clients' orders to obtain lower execution costs and better fill prices. Upon execution with multiple fills, orders will be averaged, priced and rebilled to the appropriate client's account. Partial fills will be allocated on a pro rata basis. No client will be favored over another. SHAI Supervised Persons' trades may be bundled with client orders, but will never take precedence over a client's order. If an order must be allocated in a different manner than described above, SHAI's Compliance Officer must approve rationale for the departure from procedure.

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**Trade Corrections**

On occasion, an error may occur when a trade order is submitted on your behalf. If a trade order needs to be corrected, a correcting trade may be placed with the broker-dealer that has custody of your account. If a trade error does happen, it will be corrected and no loss will occur to your account. FINRA Rule 4210 (f)(9) provides that cancellation of a transaction other than to correct an error shall constitute a sale, so a free riding penalty would be enforced if trades are cancelled for any reason other than an error. If your account is held at National Financial Services, LLC, all trade errors are corrected in a designated Trade Correction Account (not in your account).

If your account is held at Charles Schwab and Co., Inc., and if the loss from an error correction is less than \$100, Charles Schwab and Co., Inc. will absorb the loss. If the loss is over \$100, SHAI or its representative will absorb the loss. If a trade error results in a gain, Charles Schwab and Co., Inc. will keep the gain, however if there is gain over \$100 Charles Schwab and Co., Inc. will donate it to charity.

Per Securities Exchange Act Rule 7(f), and FINRA Rule 4210 (f)(9), Free-Riding in cash accounts is prohibited. Therefore, effective April 1, 2014, all net gains from trade corrections (net gains are defined as positive error account balances resulting from trade corrections) made in accounts at TD Ameritrade will automatically be moved to a designated TD Ameritrade Error Account on a daily basis. TD Ameritrade will subsequently donate these funds to the American Red Cross or to the 501(c)(3) charity of your choice.

## **Item 13 Review of Accounts**

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### **Periodic Reviews**

Generally, the IAR that has the primary relationship with the client will review the account as agreed with the client. When you work with an IAR that is part of a team or group of IARs at SHAI, the IARs may delegate the review function to one or more members of the team. The frequency of the review may vary depending on the client's needs or holdings in your portfolio; however it is reviewed at least once each year.

The primary supervision of your IAR and account is the responsibility of the Designated Supervisors. The Designated Supervisors delegate to their designees to perform daily transaction review and random audits to test compliance of internal policies, and review account portfolios for suitability and portfolio management practices. Material discrepancies are brought to the attention of the Designated Supervisors for resolution.

In addition, the Internal Auditor performs quarterly reviews of a sample of advisory accounts.

The Compliance Officer performs a review of SHAI's advisory services and supervision at least annually.

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### **Review Triggers**

Other conditions that may trigger a review are the purchase or sale of securities in your account, changes in the tax laws, new investment information, and changes in a client's own situation.

Supervisory reviews are conducted on a sample basis.

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### **Regular Reports**

Asset management clients may elect to receive quarterly performance reports. All clients will receive a quarterly statement from their custodian.

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### **Account Statements**

All assets are held at qualified custodians. The custodians provide account statements directly to clients at their address of record at least quarterly.

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### **Performance Reports**

Clients are urged to compare the account statements received directly from their custodians to the performance report statements provided by us, and report any discrepancies to the IAR or Supervisor of the IAR.

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

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### **Incoming Referrals**

SHAI has been fortunate to receive many client referrals over the years. The referrals came from current clients, estate planning attorneys, accountants, employees, personal friends of employees and other similar sources. The firm does not compensate referring parties for these referrals. Similarly at your request we may be able to refer you to other professionals who provide services that we do not provide, however you should independently evaluate those professionals, the services they may offer to provide, and the fees or costs associated with their service or advice carefully. When we make referrals, we are not compensated by them for the referral nor do we endorse or recommend the products, advice, or services they may offer or provide to you.

## **Item 15 Custody**

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Normally, we do not maintain custody of your funds or securities. It is our practice to have a third party act as custodian for client assets. Nevertheless we may deduct advisory fees from some of your accounts. Further, SHFSC, our affiliated broker/dealer in effecting trades, will serve as an introducing broker/dealer to its clearing firm, NFS,TD, or Schwab, and SMITH HAYES personnel may instruct the clearing firm to initiate a check request to a third party or wire funds from your account. This will be done only when instructed to do so by the individual with such authority on each account. All securities that are not physically delivered to you for custody will be held in custody by SHFSC's clearing firms, NFS,TD, Schwab or other bank, trust company, or clearing firm/broker-dealer as you have directed.

Notwithstanding the foregoing, because SHFSC is deemed by industry standards to have such limited custody, we are required to annually undergo an independent verification of client assets under our control. This verification is achieved by a surprise audit done by an independent auditing firm. When the audit is conducted, you may be requested in a mailed writing to verify the accuracy of assets, balances and transactions in your account.

In addition, we encourage you to review the quarterly report we send to you and to compare it to the one you receive from the custodian holding your assets.

## Item 16 Investment Discretion

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### Discretionary Authority for Trading

SHAI's authority to exercise investment discretion is dependent upon the nature of the authority granted to us by each individual client under our agreement with them and may include a power of attorney. The authority you grant may authorize us to execute transactions such as the purchase or sale of securities without talking to you first, or to issues checks or wires out of your account for your benefit. You may impose limitations on this discretion, or cancel and revoke it at any time by a written notice to us.

## Item 17 Voting Client Securities

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### Proxy Votes

SHAI and its representatives generally do not have the responsibility or authority to vote proxies on securities. In such cases, then all securities of the portfolio shall continue to have the proxies voted by the client. If the client has not authorized a general authority to SHAI and the IAR to vote proxies at the time the advisory account is established, then any written request to direct SHAI to vote proxies must be submitted to SHAI Compliance and approved by a Designated Supervisor before the IAR may vote any proxy. The Designated Supervisors will generally not approve requests to vote client proxies unless client and IAR can provide sound reasoning as to why the IAR should vote the proxy.

In some circumstances, such as the acquisition of advisory accounts from other RIA firms or the acquisition of other RIA firms, SHAI may allow certain IARs who have written instructions to continue to vote proxies for clients. SHAI may also allow new accounts opened by IARs who have been approved by SHAI and Compliance to vote proxies when following specific procedures established by SHAI and approved by Compliance for voting proxies. In such cases, the IAR will be required to have written instructions from the client directing the IAR to exercise such voting privileges and to document evidence of adherence to the procedures as part of the Books and Records of SHAI. Those IARs voting proxies will generally vote to support the recommendations of the board or shareholder proposals when the proposal furthers the long-term interests of the shareholder and the company. The IAR will generally vote against any actions that in their judgment adversely affect the client's interests by reducing the value of rights, ownership or limiting options, reducing influence over the board or reducing the shared interests of the board, management, and the client as shareholder. Each item on the ballot shall be given full consideration. If a conflict of interest exists in voting a proxy the IAR will vote according to what the IAR determines to be in the best interest of the shareholders, which may not be in alignment with a client's request. The IAR will endeavor to vote the proxy to support initiative fostering sound management and fiscal responsibility in the company.

You, the client, may obtain a copy of the proxy voting records upon written request at any time. Even when the IAR has received instructions to vote proxies, the IAR may upon written notice to the client, decline to accept responsibility for voting any securities of the Portfolio. Similarly, the client may give written notice to the IAR and revoke the authority to vote proxies at any time.

Managers of The Concordant Fund or future similar offerings will accept the responsibility to vote proxies for holdings within the Fund. Proxies will be voted in the Fund's best interest.

For specific procedures regarding proxy voting or for information regarding how your proxies were voted, contact your IAR.

## **Item 18 Financial Information**

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### **Financial Condition**

SHAI does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is not required to be provided because SHAI does not serve as a custodian for client funds or securities, and does not require prepayment of fees of more than \$1,200 per client, six months or more in advance.