

# Next Capital Management, LLC

SEC File Number: 801 – 56281

## **ADV Part 2A, Firm Brochure**

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Contact: Jennifer R. Pappas, Chief Compliance Officer  
Eleven Time Square, 15th Floor  
New York, New York 10036  
[www.nextcapitalmgmt.com](http://www.nextcapitalmgmt.com)

**This brochure provides information about the qualifications and business practices of Next Capital Management, LLC (“NEXT”). If you have any questions about the contents of this brochure, please contact us at (212) 433-1111 or [jpappas@nextcapitalmgmt.com](mailto:jpappas@nextcapitalmgmt.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

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

**References herein to NEXT as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.**

## **Item 2           Material Changes**

Since NEXT's most recent Annual Amendment filing on March 26, 2014, this ADV Part 2A, Firm Brochure has been materially amended at Item 4B and 5C regarding: a conflict of interest that arises with respect to NEXT's business relationship with Fortigent, LLC; and clients' selection of asset-based versus transaction-based fees imposed by broker-dealers/custodians.

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#### **Item 4            Advisory Business**

- A. NEXT is a limited liability company formed on December 18, 1998 in the State of Delaware, which became registered as an Investment Adviser Firm in March 1999. NEXT is principally owned by: Andrew C. Hart, who is NEXT's Managing Member; and the ACH Family Trust, which is a trust created for the benefit of Mr. Hart and his family.
- B. As discussed below, NEXT offers to clients (individuals, business entities, trusts, and pension and profit sharing plans, etc.) investment advisory services. NEXT does not hold itself out as providing financial planning or related consulting services.

#### **INVESTMENT ADVISORY SERVICES**

The client can determine to engage NEXT to provide discretionary and/or non-discretionary investment advisory services on a *fee-only* basis. Unless the client and NEXT agree to a fixed-fee arrangement, NEXT's annual investment advisory fee is based upon a percentage (%) of the market value of the assets placed under NEXT's management. Prior to engaging NEXT to provide investment advisory services, clients are required to enter into an *Investment Advisory Agreement* with NEXT setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the fee that is due from the client.

NEXT provides investment advisory services specific to the needs of each client. Before providing investment advisory services, an investment adviser representative will ascertain each client's investment objectives. Thereafter, NEXT will allocate and/or recommend that the client allocate investment assets consistent with the designated investment objectives. Once allocated, NEXT provides ongoing monitoring and review of account performance and asset allocation as compared to client investment objectives.

#### **MISCELLANEOUS**

**Limited Consulting/Implementation Services.** Although NEXT does not hold itself out as providing financial planning, estate planning or accounting services, to the extent specifically requested by the client, NEXT may provide limited consultation services to its investment management clients on investment and non-investment related matters, such as estate planning, tax planning, insurance, etc. NEXT shall not receive any separate or additional fee for any such consultation services. Neither NEXT, nor any of its representatives, serves as an attorney, accountant or licensed insurance agent, and no portion of NEXT's services should be construed as legal, accounting or insurance services. To the extent requested by a client, NEXT may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance, etc.). The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from NEXT. Please Note: If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. Please Also Note: Although NEXT's representative, James V. McGurran, in his separate individual capacity, is licensed as a Certified Public Accountant, he does not provide accounting services to any of NEXT's clients, and no corresponding CPA-client relationship is established.

**Private Investment Funds.** NEXT may provide non-discretionary investment advice regarding unaffiliated private investment funds. NEXT's role relative to the private investment funds shall be limited to its initial and ongoing due diligence and investment monitoring services. Unless otherwise set forth in this *Brochure*, if a client determines to become a private fund investor, the amount of assets invested in the fund(s) shall be included as part of "assets under management" for purposes of NEXT calculating its investment advisory fee. NEXT's clients are under absolutely no obligation to consider or make an investment in a private investment fund(s).

Please Note: Private investment funds generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in each fund's offering documents, which will be provided to each client for review and consideration. Unlike liquid investments that a client may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective client investor will be required to complete a Subscription Agreement, pursuant to which the client shall establish that he/she is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment.

Please Also Note: Valuation. In the event that NEXT references private investment funds owned by the client on any supplemental account reports prepared by NEXT, the value(s) for all private investment funds owned by the client shall reflect the most recent valuation provided by the fund sponsor. If the fund sponsor does not provide a post-purchase valuation, then the valuation shall reflect the initial purchase price (and/or a value as of a previous date) or the current value(s) (either the initial purchase price and/or the most recent valuation provided by the fund sponsor). If the valuation reflects the initial purchase price (and/or a value as of a previous date), then the current value(s) (to the extent ascertainable) could be significantly more or less than original purchase price. The client's advisory fee shall be based upon such reflected fund value(s).

**Independent Managers.** NEXT may also allocate a portion of client assets among certain independent investment manager[s] who will manage the designated assets on a day-to-day discretionary basis (the "*Independent Manager[s]*") consistent with the client's investment objectives. NEXT will continue to provide investment advisory services to the client relative to the ongoing monitoring and review of the *Independent Manager[s]*, account performance, asset allocation and client investment objectives. Factors which NEXT may consider in recommending *Independent Manager[s]* include the client's designated investment objective(s), management style, performance, reputation, financial strength, reporting, pricing, and research. Although not a material consideration for recommending asset allocation to a particular *Independent Manager*, NEXT may receive services, products and reimbursement from *Independent Manager[s]* relative to the *Independent Manager* evaluation process, such as: compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, and/or other products used by NEXT in furtherance of its investment advisory business operations. Certain *Independent Manager[s]* may impose individual account minimums.

**Fortigent/UMA.** NEXT has entered into a contractual relationship with Fortigent, LLC a third party due diligence and back-office firm ("*Fortigent*"), to assist NEXT with

investment-related due diligence, research, and administrative support services. In addition, in conjunction with NEXT's investment management services, NEXT and its clients may separately engage the services of *Fortigent* in its capacity as a UMA (Unified Managed Account) Sponsor/Overlay Manager (Access Overlay and Access Overlay II) and SEC adviser, to provide research, portfolio trading, re-balancing, reporting and other administrative services.

Please Note: Conflict of Interest. NEXT pays an annual fee to obtain *Fortigent's* administrative, reporting, and due diligence services. *Fortigent* will provide a discount toward NEXT's annual fee based upon the dollar amount of NEXT's client assets that are invested in *Fortigent*-sponsored investment programs, including its UMA program. The amount of the discount could eventually eliminate the entirety of the fee payable by NEXT to *Fortigent*. This discount arrangement provides a monetary benefit to NEXT and accordingly, presents a conflict of interest for NEXT because it could provide NEXT with a monetary incentive to allocate client assets to *Fortigent* in order to obtain a reduction of the annual fee payable by NEXT to *Fortigent*.

Please Also Note: With respect to Access Overlay II, NEXT has negotiated what it believes to be the lowest fee available from *Fortigent* (0.10% of the assets allocated to Access Overlay II subject to an annual minimum fee of \$100). However, since *Fortigent's* pricing is fixed at 0.10% of assets allocated to Access Overlay II, clients allocating a greater amount of assets to Access Overlay II will pay a higher dollar fee for *Fortigent's* services.

Please Also Note: In many instances, the client will engage both Charles Schwab and Co., Inc. ("*Schwab*") (see Asset-Based versus Transaction-Based Fees disclosure below) and *Fortigent* (for research, trading and reporting). The fees charged by *Schwab* and *Fortigent* are separate and in addition to the advisory fee payable by the client to NEXT. Assets placed on the *Fortigent* platform that are subject to Asset-Based pricing (see below) will be considered by *Fortigent* when providing the above-referenced discount payable by NEXT to obtain *Fortigent's* administrative, research, reporting, and due diligence services. Thus, a conflict of interest occurs because NEXT has a monetary incentive to recommend *Fortigent* in order to obtain a reduction of the annual fee payable by NEXT to *Fortigent*. No client is under any obligation to utilize *Fortigent's* investment programs. A client can direct NEXT, in writing, not to utilize *Fortigent* investment programs.

NEXT's Chief Compliance Officer, Jennifer Pappas, remains available to address any questions that a client or respective client may have regarding *Fortigent* and the corresponding conflict of interest.

**Asset-Based Fees versus Transaction-Based Fees:** Custodians such as *Schwab* are compensated for their services which include, but are not limited to execution, custody and reporting. *Schwab* can charge a fixed percentage fee for their services based upon the dollar amount of the assets placed in their custody and/or on their platform (for example: if *Schwab* was to charge an annual 0.10% of the market value of the client assets in its custody, the fee would include the execution of all account transactions). This is referred to as an "Asset-Based Fee". In the alternative, rather than a fixed percentage fee based upon the market value of the assets in its custody, *Schwab* could charge a separate fee for the execution of each transaction. This is referred to as a "Transaction-Based Fee". Under a Transaction Based fee, the amount of total fees charged to the client account for trade

execution will vary depending upon the number of transactions that are placed for the account. Because NEXT cannot predict the markets and the amount of trading that will occur in a client account, NEXT generally favors Asset-Based pricing because it will fix the amount of the fee paid from the account for trade execution, regardless of the number of transactions that are placed for the account. However, NEXT, on an annual basis, will conduct a sampling to confirm its belief (given the inability to predict the markets and the corresponding amount of trading that will occur) that Asset-Based pricing continues to be beneficial for its clients. Prior to engaging *Schwab* regardless of pricing (Asset-Based versus Transaction-Based), the client will be required to execute a separate agreement with *Schwab* agreeing to such pricing/fees. The fees charged by *Schwab* are separate and in addition to the advisory fee payable by the client to NEXT. NEXT's Chief Compliance Officer, Jennifer Pappas, remains available to address any questions that a client or prospective client may have regarding Asset-Based versus Transaction- Based pricing.

**Retirement Plan Rollovers-No Obligation/Conflict of Interest:** Clients are under no obligation to engage NEXT as the investment adviser for his/her employer-sponsored retirement account(s). Rather, clients can continue to self-direct such retirement account(s). However, if a client determines that he/she would like NEXT's assistance in managing his/her retirement account, NEXT shall charge a separate and additional advisory fee for ongoing advisory services, which clients would not incur by continuing to self-direct the retirement account. As a result, any recommendation by NEXT that clients engage NEXT to manage an otherwise self-directed retirement account presents a conflict of interest. Again, clients are under no obligation to engage NEXT as the investment adviser for his/her retirement account.

**Use of Mutual Funds:** Most mutual funds are available directly to the public. Thus, a client or prospective client can obtain many of the mutual funds that may be recommended and/or utilized by NEXT independent of engaging NEXT as an investment advisor. However, if a client or prospective client determines to do so, he/she/it will not receive NEXT's initial and ongoing investment advisory services.

**Cross Transactions.** In limited circumstances, NEXT may arrange for cross-transactions pursuant to which NEXT may cross transactions between two of its managed client accounts (i.e., arranging for the clients' securities trades by "crossing" these trades when NEXT believes that such transactions are beneficial to its clients). For all such transactions, neither NEXT nor any related person will be acting as a broker or receive any commission or transaction-based compensation. The client may revoke NEXT's cross-transaction authority at any time upon written notice to NEXT.

**Please Note: Non-Discretionary Service Limitations.** Clients that determine to engage NEXT on a non-discretionary investment advisory basis must be willing to accept that NEXT cannot effect any account transactions without obtaining prior verbal consent to any such transaction(s) from the client. Thus, in the event of a market correction during which the client is unavailable, NEXT will be unable to effect any account transactions (as it would for its discretionary clients) without first obtaining the client's verbal consent.

**Client Obligations.** In performing its services, NEXT shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify NEXT if there is ever any change in

his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising NEXT's previous recommendations and/or services.

**Disclosure Statement.** A copy of NEXT's written Brochure as set forth on Part 2A of Form ADV shall be provided to each client prior to, or contemporaneously with, the execution of the *Investment Advisory Agreement*.

- C. NEXT provides investment advisory services specific to the needs of each client. Prior to providing investment advisory services, an investment adviser representative will ascertain each client's investment objective(s). Thereafter, NEXT shall allocate and/or recommend that the client allocate investment assets consistent with the designated investment objective(s). The client may, at anytime, impose reasonable restrictions, in writing, on NEXT's services.
- D. NEXT does not participate in a wrap fee program.
- E. As of December 31, 2014, NEXT had \$677,587,726 in assets under management on a discretionary basis and \$111,593,320 in assets under management on a non-discretionary basis.

## **Item 5            Fees and Compensation**

A.

### **INVESTMENT ADVISORY SERVICES**

The client may engage NEXT to provide discretionary and/or non-discretionary investment advisory services on a negotiable *fee-only* basis. Unless a fixed-fee is otherwise agreed upon, NEXT's annual investment advisory fee is based upon a percentage (%) of the market value of the assets placed under NEXT's management (generally between negotiable and 1.25%) as follows:

Initial \$500,000	1.25%
Next \$500,001 - \$5,000,000	1.00%
Next \$5,000,001- \$10,000,000	0.75%
Next \$10,000,001- \$25,000,000	0.50%
Next \$25,000,001- \$50,000,000	0.40%
Over \$50,000,000	Negotiable

\* The rates set forth above are the maximum rates charges by NEXT, and NEXT may, in its sole discretion, agree to provide investment advisory services at rates lower than those set forth above.

- B. Clients may elect to have NEXT's advisory fees deducted from their custodial account. Both NEXT's *Investment Advisory Agreement* and the custodial/clearing agreement may authorize the custodian to debit the account for the amount of NEXT's investment advisory fee and to directly remit that management fee to NEXT in compliance with regulatory procedures. In the limited event that NEXT bills the client directly, payment is due upon receipt of NEXT's invoice. NEXT shall deduct fees and/or bill clients quarterly in advance, based upon the market value of the assets on the last business day of the previous quarter. A pro-rated fee will be charged on client contributions of \$25,000 or

more to cover the period of time from the date of deposit until the last calendar day of the billing quarter. Similarly, a pro-rated fee reduction will be made on withdrawals of \$25,000 or more from a client account during a billing period, to reflect the period of time from the date of withdrawal until the end of the billing quarter.

- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, NEXT shall generally recommend that *Schwab* serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as *Schwab* charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e. transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and fixed income securities transactions). In addition to NEXT's investment management fee, brokerage commissions and/or transaction fees, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses).

**Tradeaway/Prime Broker Fees.** Relative to its discretionary investment management services, when beneficial to the client, individual fixed income transactions may be effected through broker-dealers other than the account custodian, in which event, the client generally will incur both a fee (commission, mark-up/mark-down) charged by the executing broker-dealer and a separate "tradeaway" and/or prime broker fee charged by the account custodian (generally *Schwab*).

**Asset-Based Fees versus Transaction-Based Fees:** Custodians such as *Schwab* are compensated for their services which include, but are not limited to execution, custody and reporting. *Schwab* can charge a fixed percentage fee for their services based upon the dollar amount of the assets placed in their custody and/or on their platform (for example: if *Schwab* was to charge an annual 0.10% of the market value of the client assets in its custody, the fee would include the execution of all account transactions). This is referred to as an "Asset-Based Fee".

In the alternative, rather than a fixed percentage fee based upon the market value of the assets in its custody, *Schwab* could charge a separate fee for the execution of each transaction. This is referred to as a "Transaction-Based Fee". Under a Transaction Based fee, the amount of total fees charged to the client account for trade execution will vary depending upon the number of transactions that are placed for the account.

Because NEXT cannot predict the markets and the amount of trading that will occur in a client account, NEXT generally favors Asset-Based pricing because it will fix the amount of the fee paid from the account for trade execution, regardless of the number of transactions that are placed for the account. However, NEXT, on an annual basis, will conduct a sampling to confirm its belief (given the inability to predict the markets and the corresponding amount of trading that will occur) that Asset-Based pricing continues to be beneficial for its clients. Prior to engaging *Schwab* regardless of pricing (Asset-Based versus Transaction-Based), the client will be required to execute a separate agreement with *Schwab* agreeing to such pricing/fees. The fees charged by *Schwab* are separate and in addition to the advisory fee payable by the client to NEXT. NEXT's Chief Compliance Officer, Jennifer Pappas, remains available to address any questions that a client or prospective client may have regarding Asset-Based versus Transaction- Based pricing.

- D. NEXT's annual investment advisory fee shall be prorated and paid quarterly, in advance,



based upon the market value of the assets on the last business day of the previous quarter. NEXT does not generally require an annual minimum fee or asset level for investment advisory services. NEXT, in its sole discretion, may charge a lesser investment management fee.

The *Investment Advisory Agreement* between NEXT and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Advisory Agreement*. Upon termination, NEXT shall refund the pro-rated portion of the advanced advisory fee paid based upon the number of days remaining in the billing quarter.

- E. Neither NEXT, nor its representatives accept compensation from the sale of securities or other investment products.

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

Neither NEXT nor any supervised person of NEXT accepts performance-based fees.

## **Item 7            Types of Clients**

NEXT's clients shall generally include individuals, business entities, trusts, and pension and profit sharing plans. NEXT does not generally require an annual minimum fee or asset level for investment advisory services. NEXT, in its sole discretion, may charge a lesser investment management fee.

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

- A. NEXT may utilize the following methods of security analysis:
- Fundamental - (analysis performed on historical and present data, with the goal of making financial forecasts)

NEXT may utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)
- Trading (securities sold within thirty (30) days)
- Short Sales (contracted sale of borrowed securities with an obligation to make the lender whole)
- Margin Transactions (use of borrowed assets to purchase financial instruments)
- Options (contract for the purchase or sale of a security at a predetermined price during a specific period of time)

**Please Note: Investment Risk.** Investing in securities involves risk of loss that clients should be prepared to bear. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies

recommended or undertaken by NEXT) will be profitable or equal any specific performance level(s).

- B. NEXT's methods of analysis and investment strategies do not present any significant or unusual risks. However, every method of analysis has its own inherent risks. To perform an accurate market analysis NEXT must have access to current/new market information. NEXT has no control over the dissemination rate of market information; therefore, unbeknownst to NEXT, certain analyses may be compiled with outdated market information, severely limiting the value of NEXT's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

NEXT's primary investment strategies - Long Term Purchases, Short Term Purchases, and Trading - are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy. Trading, an investment strategy that requires the purchase and sale of securities within a thirty (30) day investment time period involves a very short investment time period but will incur higher transaction costs when compared to a short term investment strategy and substantially higher transaction costs than a longer term investment strategy.

In addition to the fundamental investment strategies discussed above, NEXT may also implement and/or recommend – short selling, use of margin, and/or options transactions. Each of these strategies has a high level of inherent risk. (*See* discussion below).

Short selling is an investment strategy with a high level of inherent risk. Short selling, involves the selling of assets that the investor does not own. The investor borrows the assets from a third party lender (i.e. Broker-Dealer) with the obligation of buying identical assets at a later date to return to the third party lender. Individuals who engage in this activity shall only profit from a decline in the price of the assets between the original date of sale and the date of repurchase. Conversely, the short seller will incur a loss if the price of the assets rises. Other costs of shorting may include a fee for borrowing the assets and payment of any dividends paid on the borrowed assets.

Margin is an investment strategy with a high level of inherent risk. A margin transaction occurs when an investor uses borrowed assets to purchase financial instruments. The investor generally obtains the borrowed assets by using other securities as collateral for the borrowed sum. The effect of purchasing a security using margin is to magnify any gains or losses sustained by the purchase of the financial instruments on margin. Please Note: To the extent that a client authorizes the use of margin, and margin is thereafter employed by NEXT in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to NEXT may be increased. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the potential conflict of interest whereby the client's decision to employ margin *may* correspondingly increase the management fee payable to NEXT. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

The use of options transactions as an investment strategy involves a high level of inherent risk. Option transactions establish a contract between two parties concerning the buying or selling of an asset at a predetermined price during a specific period of time. During the term of the option contract, the buyer of the option gains the right to demand fulfillment by the seller. Fulfillment may take the form of either selling or purchasing a security depending upon the nature of the option contract. Generally, the purchase or the recommendation to purchase an option contract by NEXT shall be with the intent of offsetting/“hedging” a potential market risk in a client’s portfolio. Please Note: Although the intent of the options-related transactions that may be implemented by NEXT is to hedge against principal risk, certain of the options-related strategies (i.e. straddles, short positions, etc), may, in and of themselves, produce principal volatility and/or risk. Thus, a client must be willing to accept these enhanced volatility and principal risks associated with such strategies. In light of these enhanced risks, client may direct NEXT, in writing, not to employ any or all such strategies for his/her/their/its accounts.

- C. Currently, NEXT primarily allocates client investment assets various mutual funds, exchange traded funds, and individual equity and fixed income securities, on a discretionary and non-discretionary basis, in accordance with the client’s designated investment objective(s). NEXT also provides non-discretionary investment advisory services relative to client assets that are allocated to unaffiliated private investment funds. (See Private Investment Funds above).

## **Item 9            Disciplinary Information**

NEXT has not been the subject of any disciplinary actions.

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

- A. Neither NEXT, nor its representatives, are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither NEXT, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.
- C. NEXT has no other relationship or arrangement with a related person that is material to its advisory business.
- D. NEXT may, from time-to-time recommend the services of other financial industry professionals. The terms and conditions under which the client shall engage the other financial industry professional shall be set forth in a separate written agreement between the client and the unaffiliated professional. Please Note: If the client engages any such recommended professional and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the professional.

If NEXT refers a client to financial industry professional and the client engages that professional, NEXT may be compensated for its services by receipt of a referral fee to be paid by the financial industry professional in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities

laws or requirements.

**Conflict of Interest:** The recommendation by NEXT that an individual or entity engage the an unaffiliated financial industry professional presents a conflict of interest, as the potential for receipt of referral fee may provide an incentive to recommend the professional based on the referral fee received, rather than on a particular client's need. No person or entity is under any obligation to engage any professional recommended by NEXT.

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

- A. NEXT maintains an investment policy relative to personal securities transactions. This investment policy is part of NEXT's overall Code of Ethics, which serves to establish a standard of business conduct for all of NEXT's representatives that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940, NEXT also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by NEXT or any person associated with NEXT.

- B. Neither NEXT nor any related person of NEXT recommends, buys, or sells for client accounts, securities in which NEXT or any related person of NEXT has a material financial interest.
- C. NEXT and/or representatives of NEXT *may* buy or sell securities that are also recommended to clients. This practice may create a situation where NEXT and/or representatives of NEXT are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as "scalping" (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if NEXT did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, "front-running" (i.e., personal trades executed prior to those of NEXT's clients) and other potentially abusive practices.

NEXT has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of NEXT's "Access Persons". NEXT's securities transaction policy requires that an Access Person of NEXT must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written report of the Access Person's current securities holdings at least once each twelve (12) month period thereafter on a date NEXT selects; provided, however that at any time that NEXT has only one Access Person, he or she shall not be required to submit any securities report described above.

- D. NEXT and/or representatives of NEXT *may* buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where NEXT and/or representatives of NEXT are in a position to materially benefit from

the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. As indicated above in Item 11.C, NEXT has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of NEXT's Access Persons.

## **Item 12      Brokerage Practices**

- A. In the event that the client requests that NEXT recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct NEXT to use a specific broker-dealer/custodian), NEXT generally recommends that investment management accounts be maintained at *Schwab*. Prior to engaging NEXT to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with NEXT setting forth the terms and conditions under which NEXT will provide investment advisory services, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that NEXT may consider in recommending *Schwab* (or any other broker-dealer/custodian to clients) include, among others:

- combination of transaction execution services along with asset custody services (generally without a separate fee for custody);
- capability to execute, clear and settle trades (buy and sell securities for your account);
- capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.);
- breadth of investment products made available (stocks, bonds, mutual funds, exchange traded funds, etc.);
- availability of investment research and tools that assist us in making investment decisions;
- quality of services;
- competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them;
- reputation, financial strength and stability of the provider;
- their prior service to us and our other clients; and
- availability of other products and services that benefit us, as discussed below.

Although the commissions and/or transaction fees paid by NEXT's clients shall comply with NEXT's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where NEXT determines, in good faith, that the commission/transaction fee is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although NEXT will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, NEXT's investment management fee. NEXT's best execution responsibility is qualified if

securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

1. Research and Additional Benefits

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, NEXT may receive from *Schwab* (or another broker-dealer/custodian, investment platform, unaffiliated investment manager, and/or mutual fund sponsor) without cost (and/or at a discount) support services and/or products, certain of which assist NEXT to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by NEXT may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by NEXT in furtherance of its investment advisory business operations.

As indicated above, certain of the support services and/or products that *may* be received may assist NEXT in managing and administering client accounts. Others do not directly provide such assistance, but rather assist NEXT to manage and further develop its business enterprise.

NEXT's clients do not pay more for investment transactions effected and/or assets maintained at *Schwab* as a result of this arrangement. There is no corresponding commitment made by NEXT to *Schwab* or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

Schwab Advisor Services

*Schwab* Advisor Services (formerly called *Schwab* Institutional) is *Schwab*'s business serving independent investment advisory firms like us. They provide us and our clients with access to its institutional brokerage –trading, custody, reporting and related services – many of which are not typically available to *Schwab* retail customers. *Schwab* also makes available various support services. Some of those services help us manage or administer our clients' accounts while others help us manage and grow our business. *Schwab* also provides monetary assistance to our firm to defray certain costs related to certain technology, compliance, legal, business consulting and other related expenses. *Schwab*'s support services are generally available on an unsolicited basis (we don't have to request them) and at no charge to us as long as we keep a total of at least \$45 million of our clients' assets in accounts at *Schwab*. Here is a more detailed description of *Schwab*'s support services:

Services that Benefit the Client

*Schwab*'s institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through *Schwab* include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. *Schwab*'s services described in this paragraph generally benefit you and your account.

#### Services that May Not Directly Benefit the Client

*Schwab* also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both *Schwab's* own and that of third parties. We may use this research to service all or some substantial number of our clients' accounts, including accounts not maintained at *Schwab*. In addition to investment research, *Schwab* also makes available software and other technology that:

- provide access to client account data (such as duplicate trade confirmations and account statements);
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- provide pricing and other market data;
- facilitate payment of our fees from our clients' accounts; and
- assist with back-office functions, recordkeeping and client reporting.

#### Services that Generally Benefit Only NEXT

*Schwab* also offers other services intended to help us manage and further develop our business enterprise. These services include:

- educational conferences and events
- technology, compliance, legal, and business consulting;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants and insurance providers.

*Schwab* may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. *Schwab* may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. *Schwab* may also provide NEXT with other benefits such as occasional business entertainment of our personnel.

The availability of these services from *Schwab* benefits us because we do not have to produce or purchase them. We don't have to pay for *Schwab's* services so long as we keep a total of at least \$45 million of client assets in accounts at *Schwab*. (Beyond that, these services are not contingent upon us committing any specific amount of business to *Schwab* in trading commissions or assets in custody.) The \$45 million minimum may give us an incentive to request that you maintain your account with *Schwab* based on our interest in receiving *Schwab's* services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We may believe, however, that our selection of *Schwab* as custodian and broker is in the best interests of our clients based upon the factors discussed above.

NEXT's Chief Compliance Officer, Jennifer R. Pappas, is available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement may create.

2. NEXT does not receive referrals from broker-dealers.
3. NEXT does not generally accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and NEXT will not seek better execution services or prices from other broker-dealers or be able to “batch” the client’s transactions for execution through other broker-dealers with orders for other accounts managed by NEXT. As a result, client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

**Please Note:** In the event that the client directs NEXT to effect securities transactions for the client’s accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through NEXT.

NEXT’s Chief Compliance Officer, Jennifer R. Pappas, remains available to address any questions that a client or prospective client may have regarding the above arrangement.

- B. To the extent that NEXT provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless NEXT decides to purchase or sell the same securities for several clients at approximately the same time. NEXT may (but is not obligated to) combine or “bunch” such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among NEXT’s clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. NEXT shall not receive any additional compensation or remuneration as a result of such aggregation.

### **Item 13      Review of Accounts**

- A. For those clients to whom NEXT provides investment supervisory services, account reviews are conducted on an ongoing basis by NEXT’s Managing Member and/or representatives. All investment supervisory clients are advised that it remains their responsibility to advise NEXT of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review investment objectives and account performance with NEXT on an annual basis.
- B. NEXT *may* conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.
- C. Clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer/custodian and/or program sponsor for the



client accounts. Those clients to whom NEXT provides investment supervisory services may also receive a periodic report from NEXT summarizing account activity and performance.

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

- A. As referenced in Item 12.A.1 above, NEXT may receive an indirect economic benefit from *Schwab*. NEXT, without cost (and/or at a discount), may receive support services and/or products from *Schwab*.

NEXT's clients do not pay more for investment transactions effected and/or assets maintained at *Schwab* as a result of this arrangement. There is no corresponding commitment made by NEXT to *Schwab* or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

NEXT receives an economic benefit from *Schwab* in the form of the support products and services it makes available to NEXT and other independent investment advisors that have their clients maintain accounts at *Schwab*. These products and services, how they benefit NEXT, and the related conflicts of interest are described above (see Item 12 – Brokerage Practices). The availability of *Schwab*'s products and services to NEXT is not based on NEXT providing particular investment advice, such as buying particular securities for its clients.

NEXT's Chief Compliance Officer, Jennifer R. Pappas, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest any such arrangement may create.

- B. NEXT does not compensate, directly or indirectly, any person, other than its representatives, for client referrals.

#### **Item 15      Custody**

NEXT shall have the ability to have its advisory fee for each client debited by the custodian on a quarterly basis. Clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. Those clients to whom NEXT provides investment supervisory services may also receive a periodic report from NEXT summarizing account activity and performance.

Please Note: To the extent that NEXT provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by NEXT with the account statements received from the account custodian. Please Also Note: The account custodian does not verify the accuracy of NEXT's advisory fee calculation.

## **Item 16          Investment Discretion**

The client can determine to engage NEXT to provide investment advisory services on a discretionary basis. Prior to NEXT assuming discretionary authority over a client's account, the client shall be required to execute an *Investment Advisory Agreement*, naming NEXT as the client's attorney and agent in fact, granting NEXT full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage NEXT on a discretionary basis may, at anytime, impose restrictions, in writing, on NEXT's discretionary authority (i.e. limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe NEXT's use of margin, etc.).

## **Item 17          Voting Client Securities**

- A. NEXT does not vote client proxies. Thus, unless an *Independent Manager* assumes proxy voting responsibility for client assets, clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets.
- B. Clients will receive their proxies or other solicitations directly from their custodian. Clients may contact NEXT to discuss any questions they may have with a particular solicitation.

## **Item 18          Financial Information**

- A. NEXT does not solicit fees of more than \$1,200, per client, six months or more in advance.
- B. NEXT is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. NEXT has not been the subject of a bankruptcy petition.

**ANY QUESTIONS: NEXT's Chief Compliance Officer, Jennifer R. Pappas, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.**