

Firm Brochure  
Form ADV Part 2A

THE STERLING GROUP

*Registered Investment Advisor*

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March 30, 2016

This brochure provides information about the business practices and qualifications of The Sterling Group. If you have any questions about the contents of this brochure, please contact us by telephone at (626)440-5995 or email at [contact@tsgadvisor.com](mailto:contact@tsgadvisor.com). 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 The Sterling Group is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Please note that the use of the term "registered investment adviser" and description of The Sterling Group and/or our associates as "registered" does not imply a certain level of skill or training. You are encouraged to review this Brochure and Brochure Supplements for more information on the qualifications of our firm, our associates who advise you and our employees.

## **Item 2 - Material Changes**

This Firm Brochure (“Brochure”) is dated March 30, 2016. The following material changes have been made to the Brochure since it was last updated on March 31, 2015:

- Removed references related to The Sterling Group’s wrap program as a separate disclosure brochure was created to describe the wrap program (Item 5)
- Disclosed that The Sterling Group pays an oversight fee to LPL when the client selects a custodian other than LPL (Items 5 and 12)
- Enhanced disclosure regarding fees imposed by third parties in certain situations (Item 5)
- Enhanced discussion of risks associated with investing in certain types of securities (Item 8)
- Added disclosure to reflect that LPL and AXA have access to certain confidential information of clients (Item 10)
- Disclosed that The Sterling Group has entered into service agreements with financial institutions (Item 14)

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## Item 4 - Advisory Business

The Sterling Group is an investment advisory firm comprised of a team of professionals who oversee clients' assets and provide a range of comprehensive wealth management services. Our team has the skill and expertise to offer exceptional economic advice and market analysis, as well as a strong network of professionals to refer to for legal and tax advice, enhancing our ability to successfully assist clients in achieving their financial goals. The Sterling Group has been helping clients in formulating and implementing complex wealth management strategies and managing their assets for over two decades.

The Sterling Group was established in 1990 and co-founded by Anita Chalmers. Ms. Chalmers lead the firm for ten years before merging with the current owners, C. Hunt Salembier and Michael Hatch.

Mr. Salembier and Mr. Hatch began their careers as financial advisors at American Express Financial Advisors. In 1998 they left American Express to create their own independent wealth management firm. They subsequently merged their firm with The Sterling Group in 2000. Ms. Chalmers retired in 2008 and Mr. Hatch and Mr. Salembier remain the sole principals, each owning fifty percent of the firm.

As of March 29, 2016 The Sterling Group provides advice to client accounts with a total market value of \$478,491,840 broken down as follows:

- \$256,295,000 Management of client assets on a discretionary basis
- \$11,990,000 Management of client assets on a non-discretionary basis
- \$44,063,213 Advice with respect to LPL and/or third party managed platforms

In addition, our advisors, acting as advisors through LPL Financial, also provide discretionary management services on \$124,142,220 of client assets.

Our advisors also act as registered representatives of LPL in the sale of securities. In this role, our advisors have provided guidance with respect to approximately \$42,001,407 worth of client investments.

### **Written Financial Planning and Financial Consulting:**

**Written Financial Planning:** The Sterling Group provides a variety of written financial planning services that are tailored to our clients' specific needs and circumstances. Our services are generally rendered for a flat fee which gives us the freedom to apply an objective approach to creating customized financial plans and consultations, taking into account the client's unique position and using the array of expertise at our disposal to incorporate strategies appropriate to each individual situation.

Creating a written financial plan is an involved process that typically begins with a consultation meeting so our advisors can learn about the client's goals and objectives and obtain an understanding of the client's financial situation. Some planning engagements are solely to address a specific issue or transaction while others may require a more comprehensive review. Our planning services typically encompass one or more of the following areas: Investment Planning, Retirement Planning, Estate Planning, Charitable Planning, Education Planning, Corporate and Personal Tax Planning, Protection Planning, Corporate Structure and Succession Planning, Real Estate Analysis, Mortgage/Debt Analysis, Insurance Analysis.

When providing written financial planning, we rely heavily on data and information provided by the client. Information such as: expense and income schedules, investment statements, pension statements, estate plans and tax returns. These data points and any assumptions used in our planning forecasts are expressly stated in our financial plans. For example, recommendations may be made for the client to begin or revise investment programs, create or revise wills or trusts through qualified legal counsel, obtain or revise insurance coverage, commence or alter retirement savings, or establish education or charitable giving programs. It should be noted that we will refer clients to an accountant, attorney or other specialist, as necessary. After the completion of our analysis we provide the client with a written summary of their financial situation, our observations, and recommendations. Written plans are typically completed within three months of the client signing a Service Agreement with us, assuming that all the information and documents we request from the client are provided on a timely basis. Once the written financial plan is completed and delivered to the client, implementation of any recommendations is at the discretion of the client.

**Financial Consulting:** The Sterling Group provides financial consulting for an hourly fee. The financial consulting process is generally less formal than our written financial planning service. We may or may not provide our clients with a written summary of our observations and recommendations. We offer financial consulting and expert advice in all of the same areas in which we conduct financial planning. The implementation of our financial consulting recommendations is also at the discretion of the client.

#### **Fee Based Investment Management:**

**1) Asset Management:** The Sterling Group provides investment strategies that are tailored to our client's specific needs. Management services may be provided on a discretionary or non-discretionary basis. Each portfolio is designed to meet a particular investment goal, which we determine to be suitable to the client's circumstances. We select from a wide array of investment vehicles, such as stocks, options, fixed income securities, mutual funds, real estate investment trusts, exchange traded funds, and in certain situations we may choose hedge funds, high yield debt, managed futures and other more complex or specialized instruments. Although the selection of investments is at the discretion of the advisor, each client has the opportunity to place reasonable restrictions on the types of investments to be held in the portfolio. Once the appropriate portfolio has been determined, we monitor the accounts regularly, conduct a semi-annual review and rebalance the portfolio if necessary, based upon the client's individual needs, stated goals and objectives. The Sterling Group takes a calm and measured approach to managing client's assets that is supported by the belief that over the long term, a consistent strategy that is meticulously followed will provide the best opportunity for the best return. Clients may choose to engage The Sterling Group on a non-discretionary basis. Changes in non-discretionary accounts will only be implemented with the client's authorization.

Client assets managed by The Sterling Group are held in accounts at a registered broker/dealer and qualified custodian, who will provide clearing, custody and other brokerage services for client accounts. At the present time The Sterling Group has custodial relationships with LPL Financial, LLC and Charles Schwab & Co. While The Sterling Group may assist the client in completing the custodian's paperwork, the client is ultimately responsible for providing all of the necessary information to establish the account. Clients will retain all rights of ownership in the accounts, including the right to withdraw securities and cash, vote proxies, and receive transaction confirmations.

On an accommodation basis, The Sterling Group may also agree to handle certain accounts on a non-managed basis. In such cases, The Sterling Group will not be responsible for providing management on either a discretionary or non-discretionary basis.

**2) Portfolio Management Services:** When appropriate we have the ability to provide advisory services through certain programs sponsored by third party investment advisory firms. These programs provide access to professional Portfolio Managers, who will provide individual management to client's account on a discretionary basis. A broad range of Portfolio Managers and multiple investment styles are available, including equity, fixed income, balanced, international, ETF, REIT and socially responsible portfolios. The Sterling Group will assist the client in determining the investment objective, as well as selecting an investment strategy and/or Portfolio Manager for the account. We will also provide ongoing advice and monitoring of the Portfolio Manager services and act as the point of contact between the client and the Portfolio Managers.

For more information regarding these programs, including the advisory services and fees that apply, the types of investments available in the programs, and the potential conflicts of interest presented by the programs, please refer to the appropriate disclosure document for the specific program.

## Item 5 - Fees and Compensation

**Written Financial Planning and Financial Consulting Services:** The Sterling Group charges a flat fee for Written Financial Planning that generally ranges from \$2,500 to \$7,500. A retainer of fifty-percent of the ultimate financial planning fee is typically collected with the signing of the Service Agreement. The remainder of the fee is due within thirty days of the delivery of the completed written plan to the client. In all cases, we will not require a retainer exceeding \$500 when services cannot be rendered within 6 months.

The Sterling Group charges an hourly fee ranging from \$50 to \$350 per hour for Financial Consulting. A retainer fee is not typically required for our consulting services. The total estimated fee, as well as the ultimate fee that is charged, is based on the scope and complexity of the engagement with the client.

**Asset Management:** Fees are paid quarterly in advance and billed on a pro-rated annualized basis. Fees are calculated as a percentage of the market value of all assets on the last trading day of the month of the previous quarter, including cash holdings. The fee may be higher than the fee charged by other investment advisors for similar services. Our fees are generally not negotiable. Below is the schedule of fees for our asset management service:

<u>Assets Under Management</u>	<u>Annual Fee Percentage:</u>
\$0 to \$999,999	1.00 – 1.75 %
\$1,000,000 to \$5,000,000	0.85 – 1.50 %
\$5,000,000 to \$10,000,000	0.65 – 1.00 %
\$10,000,000 to \$20,000,000	0.55 – 0.70 %
Over \$20,000,000	0.45 – 0.55 %

The advisory fee is shared between The Sterling Group and its advisor. In such cases where a custodian other than LPL is selected by the client, The Sterling Group will pay 5% of the advisory fee received from the client to LPL as an oversight fee. This presents a conflict of interest in that The Sterling Group has a financial incentive to recommend LPL as a custodian. Notwithstanding, The Sterling Group takes its responsibility to clients seriously, and will recommend a custodian to clients only if it believes it is in the client's best interest.

In order to hire The Sterling Group to provide management services, clients will be asked to enter into a written investment advisory agreement with The Sterling Group. This agreement will set forth the terms and conditions of the relationship, including the amount of the investment advisory fee.

In the event that a client wishes to terminate services with The Sterling Group, we request a written statement from the client stating the instructions to terminate our services. Upon receipt of the letter of termination, we will proceed to close out the account and process a pro-rata refund of unearned advisory fees.

Clients will incur transaction charges for trades executed in their accounts. These transaction charges are separate from our fees and will be disclosed by the firm through which the trades are executed. These transaction charges vary based on the type of investment (e.g., stock, mutual fund, exchange traded fund, etc.) and are paid to the custodian of the client's assets. The Sterling Group does not receive any portion of the transaction charges.

There are other fees and charges that are imposed by third parties that apply to investments in client accounts. Some of these fees and charges are described below:

- If a client account invests in mutual funds or ETFs, please note that as a shareholder of the fund, a management fee will apply, in addition to paying us an advisory fee for managing the assets. As many of the funds available may be purchased directly, the second layer of fees could be avoided by not using The Sterling Group's management services and by the client making their own fund investment decisions.
- Certain mutual funds impose fees and charges such as contingent deferred sales charges, early redemption fees and charges for frequent trading. These charges will apply if a client transfers into or purchases such a fund in the account.
- Although only no-load and load-waived mutual funds can be purchased in a client's account, clients should understand that some mutual funds pay asset based sales charges or service fees (e.g., 12b-1 fees) to the custodian.
- If a client holds a variable annuity as part of an account, there are mortality, expense, and administrative charges and may be fees for additional riders on the contract and charges for excessive transfers within a calendar year imposed by the variable annuity sponsor.
- Certain retirement accounts – IRA and qualified retirement plan fees.
- Certain trust accounts – Administrative servicing fees for trust accounts.
- Unit investment trusts ("UIT") – creation and development fees or similar fees imposed by UIT sponsors.
- Alternative investments – Hedge fund and managed future investment management fees, managed futures investor servicing fees, and business development company fees.
- Sweep money market funds and cash balances – 12b-1 fees or other fees based on average daily deposit balances.
- Other charges required by law and imposed by the executing broker/dealer or custodian.

Further information regarding fees assessed by a mutual fund or variable annuity is available in the appropriate prospectus, which is available upon request from The Sterling Group or from the product sponsor directly.

**Portfolio Management Services:** Fees for services provided by The Sterling Group are paid quarterly in advance and billed on a pro-rata annualized basis using the fee schedule noted above under Asset Management Services. Fees are calculated as a percentage of the market value of all assets on the last trading day of the month of the previous quarter. In addition to and separate from the advisory fees charged by The Sterling Group, as referenced in the above schedule, the client will be responsible for additional fees charged by the third party investment advisory firms, as well as custody and clearing fees. Please refer to the appropriate disclosure brochure for the specific program for more information regarding the fees and compensation associated with each third party investment advisory program.

**Miscellaneous:** Fees will generally be automatically deducted from the client's managed account. In certain cases, we will agree to directly bill clients or pay the fees for one account from another account. As part of this process, the client understands and acknowledges the following:

- a) The account's custodian sends monthly or quarterly statements showing all disbursements for the client's account, including the amount of the advisory fees paid to The Sterling Group.
- b) The client provides the custodian with authorization permitting advisory fees to be deducted from their advisory account.
- c) The custodian, or in certain cases The Sterling Group, calculates the advisory fees and the custodian deducts them from the client's account.
- d) If we send a copy of our invoice to the client, our invoice includes a legend as required by state rules and regulations. The legend urges the client to compare information provided in our statements with those from the qualified custodian in account opening notices and subsequent statements sent to the client for whom the advisor opens custodial accounts with the qualified custodian.

In non-advisory accounts certain advisors of The Sterling Group can offer securities for a commission because they are registered representatives of either LPL Financial, LLC or AXA Advisors, LLC both broker/dealers registered with FINRA. Our advisors may accept compensation for the sale of securities or other investment products, including distribution or service ("trail") fees from the sale of mutual funds. If a non-advisory account is opened, the client should be aware of the practice of accepting commissions for the sale of securities and be advised of the following:

- a) Purchasing securities in a non-advisory account may present a conflict of interest that may give our firm and/or our supervised persons an incentive to recommend investment products based on the compensation received, rather than on your needs. We generally address commissionable sales conflicts that arise by explaining to the client that the sale of commissionable securities creates an incentive to recommend products based on the compensation we and/or our supervised persons may earn and may not necessarily be in the best interest of the client. When we recommend commissionable mutual funds, we explain that "no-load" funds are available through our firm if the client wishes to become an investment advisory client.
- b) Purchasing securities in a non-advisory account in no way prohibits the client from purchasing



investment products recommended by our firm through other brokers or agents which are not affiliated with The Sterling Group.

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

We do not charge performance based fees to our clients.

### **Item 7 - Types of Clients and Account Requirements**

The Sterling Group services Individuals, High-Net-Worth Individuals, Trusts, Estates, Charitable Organizations, Pension and Profit Sharing Plans, as well as Corporations, Limited Liability Companies and/or other types of businesses. In general, the minimum investment for new clients is \$500,000 subject to a minimum account fee of \$6,250.

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

We are committed to helping clients achieve their financial goals and objectives. After developing a thorough understanding of a client's risk tolerance and their short and long-term goals, we work to create and implement a customized investment portfolio. To accomplish this, we utilize our investment consulting process, which is designed to help us determine how best to address a client's financial goals and objectives. We examine the many factors that determine our clients' needs, such as financial situation, tax situation, income, investment time horizon, and risk tolerance.

We carefully examine a client's needs and goals to ensure they are assigned an appropriate investment objective. We then choose an appropriate asset allocation to realize a client's desired rate of return with an acceptable amount of risk. We utilize our experience to ensure client accounts are properly diversified and not subject to the volatility of a single sector, industry, or asset class. We monitor our clients' managed accounts and rebalance as necessary, to ensure that they are aligned with their account objective.

When selecting mutual funds, ETFs, and third-party money managers, we examine the experience, expertise, investment philosophies, and past performance of the manager. We do this to determine if that manager has successfully demonstrated an ability to invest over a period of time and in different economic or market conditions. With mutual funds or ETFs we look at the underlying assets in an attempt to determine if there is a significant overlap in the underlying investments held in another fund in the client's portfolio. For money managers, we monitor the manager's underlying holdings, strategies, concentrations, and leverage as part of our overall periodic risk assessment.

It is important to keep in mind that there is no specific approach to investing that guarantees success or positive returns; investing in securities involves risk of loss that clients should be prepared to bear.

As stated, we generally use the following types of investments: mutual funds (including asset allocation funds, index funds, international funds, emerging market funds, real estate funds, high yield bond funds and funds that short the market), ETFs (including commodity funds precious metal funds and agricultural funds), variable annuity subaccounts, alternative investments (including managed futures funds, hedge funds, real estate investment trusts and business development companies), individual stocks and bonds. The particular investments selected for your account will depend upon your investment objective, level of risk tolerance, sensitivity to taxes, and other factors.

There are risks associated with investing in securities. The following highlights some of the risks associated with the types of investments that may be purchased for your account.

- Investing in any security involves some level of risk; stocks, which represent equity or ownership in a company, are considered inherently risky and no return is predictable or guaranteed when investing in any stock or stock-based fund.
- Investing in international markets presents additional risks including currency fluctuations, the potential for diplomatic and political instability, regulatory and liquidity risks and foreign taxation among others. The risks of foreign investing are generally greater in emerging markets.
- High yield bonds carry greater risks than bonds rated as investment grade. For example, they are issued by organizations that do not qualify for an investment grade rating by one of the rating agencies because of the potential for higher default by the issuer. Further financial difficulties experienced by the issuer may result in a decrease in the market value of the bond, and this may make it impossible to liquidate the bond prior to maturity.
- ETFs are typically investment companies that are legally classified as open end mutual funds or UITs. However, they differ from traditional mutual funds, in that ETF shares are listed on a securities exchange. Shares can be bought and sold throughout the trading day like shares of other publicly-traded companies. ETF shares may trade at a discount or premium to their net asset value. The difference between the bid price and the ask price is often referred to as the “spread.” The spread varies over time based on the ETF’s trading volume and market liquidity, and is generally lower if the ETF has a lot of trading volume and market liquidity and higher if the ETF has little trading volume and market liquidity. Although many ETFs are registered as an investment company under the Investment Company Act of 1940 like traditional mutual funds, some ETFs, in particular those that invest in commodities, are not registered as an investment company.
- Business development companies (“BDCs”) are operated for the purpose of making investments in small and developing business, as well as financially troubled businesses. BDCs must also make available managerial assistance to certain of its portfolio companies and is only required to disclose its net asset value on a quarterly basis. BDCs are often characterized as a publicly traded venture capital or private equity firm that is subject to certain provisions of the Investment Company Act. BDCs can be speculative investments because of the types of investments they make and involve significant risks. These risks include, but are not limited to, portfolio company credit and investment risk, leverage risk, market and valuation risk, price volatility risk, liquidity risk, capital markets risk, interest rate risk, dependence on key personnel, and structural and regulatory risk.
- Managed futures funds, hedge funds and real estate investment trusts may be purchased within Program accounts on a non-discretionary basis by clients meeting certain standards. Investing in these funds involves additional risk including, but not limited to, the risk of investment loss due to the use of leveraging and other speculative investment practices and lack of liquidity and performance volatility. In addition, these funds are not required to provide periodic pricing or valuation information to investors and may involve complex tax structures and delays in distributing tax information. You should be aware that these funds are not liquid as there is no secondary trading market available.

## **Item 9 - Disciplinary Information**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

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

Certain advisors of our firm may also be registered representatives of a registered broker/dealer and/or Investment Advisor Representatives ("IAR") with another registered investment advisor. Please refer to the brochure supplement for the individual handling your account for further information about the advisor's status as a registered representative or IAR.

As potential material conflicts of interest with our clients, we disclose the following relationships or arrangements we have with any related person:

Acting as registered representatives or independent insurance agents, advisors of our firm may suggest that clients implement recommendations through a registered broker/dealer or insurance company. If the client chooses to do so, this would present a conflict of interest to the extent that the advisor would receive normal and customary commissions as a registered representative or licensed insurance agent. Clients may implement and execute such transactions through an advisor of our firm. However, clients are under no obligation to accept recommendations, or to execute transactions through individuals associated with our firm.

Acting as IARs, advisors of The Sterling Group may offer advisory accounts through another registered investment advisor. This presents a conflict of interest to the extent that the IAR recommends that a client open an account in which compensation is received as an IAR.

As a result of the relationship with LPL Financial and AXA Advisors, LPL Financial and AXA Advisors may have access to certain confidential information (for example, financial information, investment objectives, transactions and holdings) about The Sterling Group's clients, even if the client does not establish any account through LPL Financial or AXA Advisors. If you would like a copy of LPL Financial's or AXA Advisors' privacy policies, please contact The Sterling Group to request copies.

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

We recognize that the personal investment transactions of members and employees of our firm demand the application of a high code of ethics and require that all such transactions be carried out in a way that does not endanger the interest of any client. At the same time, we believe that if investment goals are similar for clients and for members and employees of our firm, it is logical and even desirable that there be common ownership of some securities.

Therefore, in order to prevent conflicts of interest, we have in place a set of procedures with respect to transactions effected by our members, officers and employees for their personal accounts. In order to monitor compliance with our personal trading policy, we review personal securities transactions for all of our associates.

Furthermore, our firm has established a Code of Ethics which applies to all of our associated persons. An investment adviser is considered a fiduciary. As a fiduciary, it is an investment adviser's responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each of our clients at all times. We have a fiduciary duty to all clients. Our fiduciary duty is considered the core underlying principle for our

Code of Ethics which also includes Insider Trading and Personal Securities Transactions Policies and Procedures. We require all of our supervised persons to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times. Upon employment or affiliation and at least annually thereafter, all supervised persons will sign an acknowledgement that they have read, understand, and agree to comply with our Code of Ethics. Our firm and supervised persons must conduct business in an honest, ethical, and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all clients. Our Code of Ethics was adopted pursuant to SEC rule 204A-1. This disclosure is provided to give all clients a summary of our Code of Ethics. However, if a client or a potential client wishes to review our Code of Ethics in its entirety, a copy will be provided promptly upon request.

LPL Financial's parent company, LPL Investment Holdings Inc. (ticker symbol LPLA), is a publicly traded company. AXA Advisor's parent company, AXA Group (ticker AXAHY), is a publicly traded company. The Sterling Group does not recommend or solicit orders of LPL Investment Holdings Inc. or AXA Group stock in Asset Management accounts.

## **Item 12 - Brokerage Practices**

The Sterling Group has entered into a relationship with LPL Financial and Charles Schwab & Co. to serve as custodian and executing broker/dealer for asset management accounts. In some cases, clients may choose to select another qualified custodian to execute asset management transactions. The Sterling Group requires that clients select and direct the custodian as the sole and exclusive broker/dealer to execute transactions for asset management accounts. All asset management transactions will be processed without commissions. While The Sterling Group believes that these custodians have execution procedures that are designed to obtain the best execution possible, there can be no assurance that best execution can be obtained. By selecting a particular custodian, clients may not achieve the most favorable execution.

As stated under Item 5 – Fees and Compensation, in such cases where a custodian other than LPL is selected by the client, The Sterling Group will pay 5% of the advisory fee received from the client to LPL as an oversight fee. This presents a conflict of interest in that The Sterling Group has a financial incentive to recommend LPL as a custodian. Notwithstanding, The Sterling Group takes its responsibility to clients seriously, and will recommend a custodian to clients only if it believes it is in the client's best interest.

We seek to make available only custodians who will hold your assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, but not limited to the following:

- 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).
- Capability 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 ("ETF"s), etc.).
- Availability of investment research and tools that assist us in making investment decisions.
- Competitive pricing 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 clients.
- Availability of other products and services that benefit us, as discussed below.

For accounts receiving Portfolio Management Services, the choice of custodian and executing broker/dealer is the responsibility of the third party investment advisory firm and/or the Portfolio Manager.

Our firm has a non-soft-dollar arrangement with the custodians from which we receive services such as research and administrative functions including portfolio pricing, account statement generation and fee calculations, software and other technology that provide access to client account data, and attendance at conferences, meetings and other educational and/or social events. These services are intended to support our firm in conducting business and in serving the best interests of our clients. Our firm does not receive client brokerage commissions (or markups or markdowns) in exchange for research or other products or services. Our recommendation of a qualified custodian to our clients is based on our clients' interests in receiving the best execution and the level of competitive, professional services that the qualified custodians provide.

We perform investment management services for various clients. There are occasions on which portfolio transactions may be executed as part of concurrent authorizations to purchase or sell the same security for numerous accounts served by our firm, which involve accounts with similar investment objectives. Although such concurrent authorizations potentially could be either advantageous or disadvantageous to any one or more particular accounts, they are affected only when we believe that to do so will be in the best interest of the effected accounts. When such concurrent authorizations occur, the objective is to allocate the executions in a manner which is deemed equitable to the accounts involved. In any given situation, we attempt to allocate trade executions in the most equitable manner possible, taking into consideration client objectives, current asset allocation and availability of funds using price averaging, proration and consistently non-arbitrary methods of allocation.

The Sterling Group typically aggregates orders. The advantages to aggregating are that the orders are handled in a way that mitigates market impact (as applicable and possible) and that each client gets the same (average) execution price. We may determine not to aggregate transactions, for example, based on the size of the trades, the number of client accounts, the timing of the trades, the liquidity of the securities, and the discretionary or non-discretionary nature of the trades. If orders are not aggregated, some clients purchasing securities around the same time may receive a less favorable price than other clients. This means that the practice of not aggregating may cost clients more money.

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

Asset Management accounts are reviewed individually on at least a semi-annual basis. The nature of these reviews is to determine whether clients' accounts are in line with their investment objectives, appropriately positioned based on market conditions, and investment policies, if applicable. We may review client accounts more frequently than described above. Among the factors which may trigger an off-cycle review are major market or economic events, the client's life events, requests by the client, etc. We provide written reports to clients as requested. Verbal reports to clients take place on at least an annual basis when we meet with clients who subscribe to our Asset Management Services. Reviews are conducted by our advisors.

In addition to the semi-annual review conducted at the account level, we regularly review the individual positions held by our clients. We monitor each investment's relative performance versus its peers and relevant

benchmarks. We replace individual positions, as necessary, due to performance or market conditions.

Any activity in an asset management account will be reflected on the monthly or quarterly statement from the account's custodian, showing account activity as well as positions held in the account at month end. Additionally, you will receive a confirmation of each transaction that occurs, unless the transaction is the result of a systematic purchase, redemption or exchange. For managed accounts where LPL Financial serves as the custodian, you will also receive a detailed quarterly performance report prepared by LPL Financial on behalf of The Sterling Group.

Financial Planning clients do not receive reviews of their written plans unless they take action to schedule a financial consultation with us. We do not provide ongoing services to financial planning clients, but are willing to meet with these clients upon their request to discuss updates to their plans, changes in their circumstances, etc.

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

The Sterling Group has entered into service agreements with certain unaffiliated financial institutions (e.g., banks) that permit The Sterling Group to provide investment advisory services to the financial institutions customers. Pursuant to service agreements, The Sterling Group shares a portion of the advisory fees with the financial institutions for use of the financial institution's facilities and for access to financial institution customers.

As a result of our relationship with LPL Financial, we may receive production bonuses, stock options to purchase shares of LPL Financial's parent company, and other things of value such as free or reduced-cost attendance at events hosted by LPL Financial. Such compensation may be based on overall revenue produced and/or on the amount of assets serviced through LPL Financial. Thus, there is a financial incentive for us to recommend that you establish an account at LPL Financial. We take our responsibilities to clients very seriously and we will only recommend that clients use LPL Financial for custody and hire us for management services if we believe it is appropriate and in the client's best interests.

#### **Item 15 – Custody**

We do not maintain custody of client funds or securities. All of our clients receive at least quarterly account statements directly from their custodians. If we decide to send account statements to clients, the account statements include a legend that recommends that the client compare the account statements received from the qualified custodian with those received from our firm. We encourage our clients to raise any questions with us about the custody, safety or security of their assets. The account custodian will send you independent account statements listing your account balance(s), transaction history and any fee debits or other fees taken out of your account.

We will not have access to client funds or securities with the exception of having advisory fees deducted from client accounts and paid to us by the custodian. Any fee deductions will be done pursuant to client's written authorization provided to the custodian.

#### **Item 16 - Investment Discretion**

We accept discretionary authority over the management of client accounts. Our discretionary authority

is limited only to affecting trades in client accounts; we will determine the type and the amount of securities that can be bought or sold without obtaining client consent for each trade. Our clients must sign a discretionary investment advisory agreement with our firm for the management of such accounts. Clients may also elect to have us maintain accounts on a non-discretionary, non-managed basis.

For accounts receiving Portfolio Management Services, we do not have any discretionary authority with respect to client accounts. The Portfolio Manager will maintain discretion and all responsibility for account management.

We do not exercise any discretionary authority when providing Financial Planning and Financial Consulting services.

### **Item 17 - Voting Client Securities**

We do not and will not accept the proxy authority to vote client securities. Clients will receive proxies or other solicitations directly from their custodian or a transfer agent. In the event that proxies are sent to our firm, we will forward them on to the client and ask the party who sent them to mail them directly in the future. Clients may call, write or email us to discuss questions they may have about particular proxy votes or other solicitations.

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

The Sterling Group does not have any financial commitments that impair its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.