

# **Spectrum Asset Management, Inc.**

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

March 30, 2017

This brochure provides information about the qualifications and business practices of Spectrum Asset Management, Inc. If you have any questions about the contents of this brochure, please contact Tony Jung at 949-717-3400 or [tony@myspectrum.com](mailto:tony@myspectrum.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.

Any reference to or use of the terms “registered investment adviser” or “registered,” does not imply that Spectrum Asset Management, Inc. or any person associated with Spectrum Asset Management, Inc. has achieved a certain level of skill or training.

Additional information about Spectrum Asset Management, Inc. is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## ITEM 2 - MATERIAL CHANGES

**Revised March 30, 2017**

The purpose of this page is to inform you of material changes since the previous annual update to the brochure. If you are receiving this brochure for the first time, this section may not be relevant to you.

Spectrum Asset Management, Inc. ("Spectrum") reviews and updates the brochure at least annually to confirm that it remains current. We have not made material changes since the previous annual update to the brochure, dated March 30, 2016.

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## ITEM 4 - ADVISORY BUSINESS

### Description of Advisory Firm

Spectrum Asset Management, Inc. ("Spectrum") is a registered investment adviser with offices in Newport Beach, CA and in Paia, HI. Spectrum became registered with the Securities and Exchange Commission on 14 September 1987. Spectrum has continued to operate its business in Newport Beach since its founding.

Roland D. Kelly was the sole owner of the company at the time of its founding. Roland continues to work in the business to this date. He serves as the Chief Investment Officer. Ryan L. Kelly is the current President/Chief Executive Officer of Spectrum and is active in the operation of the company on a daily basis. Ryan is considered a "principal owner" as he owns the majority of the outstanding shares of Spectrum stock through a trust. The remaining shares of the company are held by Roland Kelly through a trust, as noted above and Marc D. Kelly, who has not been active in Spectrum's operations since 1999.

### Advisory Services Offered

#### Managed Accounts

Spectrum provides investment advisory services to over 300 Clients. Currently, Spectrum allocates Client investment assets on a discretionary or non-discretionary basis, among various individual equity and fixed income securities, Exchange Traded Funds (ETFs), and mutual funds, in accordance with the Client's designated investment objective(s). Spectrum generally recommends that investment advisory accounts are maintained at an independent custodian such as Charles Schwab & Co, Inc. ("Schwab"), but may recommend or utilize other independent custodians such as TD Ameritrade. Prior to engaging Spectrum to provide investment advisory services, the Client will be required to enter into a formal Investment Advisory Agreement with Spectrum that sets forth the terms and conditions under which Spectrum shall manage the Client's assets.

The primary methods of analysis used by Spectrum in performing its investment advisory services are fundamental, technical and cyclical. These are discussed in greater detail in the section titled **Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss**.

#### *Institutional Intelligent Portfolios*

We provide certain portfolio management services through Institutional Intelligent Portfolios™, an automated, online investment management platform for use by independent investment advisors and sponsored by Schwab Wealth Investment Advisory, Inc. (the "iiP Program" and "SWIA," respectively). Through the iiP Program, we offer Clients a range of investment strategies we have constructed and manage, each consisting of a portfolio of exchange traded funds ("ETFs") and a cash allocation. The Client may instruct us to exclude up to three ETFs from their portfolio. The Client's portfolio is held in a brokerage account opened by the Client at SWIA's affiliate, Schwab. We are independent of and not owned by, affiliated with, or sponsored or supervised by SWIA, Schwab or their affiliates (together, "Schwab Entities"). The iiP Program is described in the Schwab Wealth Investment Advisory, Inc.

Institutional Intelligent Portfolios™ Disclosure Brochure (the “iiP Program Disclosure Brochure”), which is delivered to Clients by SWIA during the online enrollment process.

We, and not Schwab, are the Client’s investment advisor and primary point of contact with respect to the iiP Program. We determine the appropriateness of the iiP Program for the Client, choose a suitable investment strategy and portfolio for the Client’s investment needs and goals, and manage that portfolio on an ongoing basis. SWIA is responsible for delivering the iiP Program Disclosure Brochure to Clients and administering the iiP Program so that it operates as described in the iiP Program Disclosure Brochure.

We have contracted with SWIA to provide us with the technology platform and related trading and account management services for the iiP Program. This platform enables us to make the iiP Program available to Clients online and includes a system that automates certain key parts of our investment process (the “System”). The System includes an online questionnaire that helps us determine the Client’s investment objectives and risk tolerance and select an appropriate investment strategy and portfolio. Clients should note that a portfolio will be recommended via the System in response to the Client’s answers to the online questionnaire. The Client may then indicate an interest in a portfolio that is one level less or more conservative or aggressive than the recommended portfolio, but we then make the final decision and select a portfolio based on all the information we have about the Client. The System also includes an automated investment engine through which we manage the Client’s portfolio on an ongoing basis through automatic rebalancing and tax-loss harvesting (if the Client is eligible and elects).

We do not receive a portion of a wrap fee for our services to Clients through the iiP Program. Clients do not pay fees to SWIA in connection with the iiP Program, but we charge Clients a fee for our services as described below under ***Item 5 – Fees and Compensation***. Our fees are not set or supervised by Schwab Entities. Clients do not pay brokerage commissions or any other fees to Schwab as part of the iiP Program. Schwab Entities do receive other revenues in connection with the iiP Program, as described in the iiP Program Disclosure Brochure.

We do not pay SWIA fees for its services in the iiP Program so long as we maintain \$100 million in Client assets in accounts at Schwab that are not enrolled in the iiP Program. If we do not meet this condition, then we pay SWIA an annual fee of 0.10% (10 basis points) on the value of our Clients’ assets in the iiP Program. This fee arrangement may give us an incentive to recommend or require that our Clients with accounts not enrolled in the iiP Program be maintained with Schwab. Our other services are outlined in other portions of our Form ADV.

### *Financial Planning Services*

Spectrum also provides basic financial planning and consulting services. In the event that the Client requires extraordinary planning and/or consultation services (to be determined in the sole discretion of Spectrum), Spectrum may determine to charge for such additional services. The actual dollar amount of the services will be mutually agreed upon. The agreement with respect to the fee amount, as well as the

scope and extent of financial planning to be performed, will be set forth in a separate written Financial Planning agreement.

### *Sub-Advisory Relationships*

Clients can also access Spectrum's investment management services through unaffiliated third parties under a sub-advisory relationship. These services are offered as separately managed accounts in Spectrum's investment strategies, as described below under ***Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss***. The fees Spectrum receives under these arrangements are described below under ***Item 5 - Fees and Compensation***.

## **Tailored Services and Client Imposed Restrictions**

Prior to engaging Spectrum to perform any services, prospective Clients will spend time with a Spectrum executive to discuss their financial objectives. Spectrum attempts to gain clarity about the Client's vision, values and goals as they specifically relate to their investments. Once hired, Client accounts are placed in one of a number of models Spectrum has created. The model selected attempts to match the goals and objectives that have been communicated by the Client.

Clients may request that Spectrum be restricted from buying or selling certain securities or security types. Such requests must be delivered to Spectrum in writing. In the event there is an investment asset that is currently held by the Client where instructions have been delivered to not sell that asset, Spectrum may consider that investment asset to not be a part of the assets managed by Spectrum. If Spectrum decides they are not to be a part of the managed assets, they will be referred to as "Excluded Assets" or "Special Assets". If the Client wishes for Spectrum to report on the Excluded Assets, the Client will be required to acknowledge that, with respect to the Excluded Assets, Spectrum's service is limited to reporting services only and does not include investment management, review, or monitoring services, nor investment recommendations or advice. As such, the Client, and not Spectrum, shall be exclusively responsible for the investment performance of the Excluded Assets. In the event the Client desires that Spectrum provide investment advisory services with respect to the Excluded Assets, the Client may engage Spectrum to do so for a separate and additional fee in accordance with the fee schedule set forth in the Appendix of the Investment Advisory Agreement.

## **Wrap Fee Programs**

Spectrum also manages accounts in wrap fee programs sponsored by other financial services firms. As part of these programs, the Client generally pays a single bundled fee to the company offering the wrap fee program, instead of paying separately for Spectrum's advisory services, commissions on transactions, custodian fees, and other transaction-related fees. The company sponsoring the program then pays Spectrum a portion of the wrap fee for our investment management services.

Spectrum chooses investments and manages the accounts of Clients in the wrap fee program the same way we manage other Client accounts. However, because wrap fee programs are often offered by or connected to a broker-dealer, we will use that broker-dealer when placing equity trades for those accounts so as not to incur additional trading costs. Due to the nature of fixed income securities, we

may trade away from the wrap program sponsor for fixed income trades if we believe we can receive better pricing and/or execution from another broker. When we use a different broker for trades, that broker generally charges the Client additional transaction costs in addition to the fees the Client is paying under the wrap fee program. We take these additional charges into account when making our trading decisions. Our trading practices, described below under **Item 12 - Brokerage Practices**, may also affect wrap fee clients.

## Assets Under Management

As of December 31, 2016, Spectrum's assets under management were as follows:

Discretionary Assets	\$ 430,240,032
<u>Non-Discretionary Assets</u>	<u>\$ 9,026,640</u>
Total Assets	\$ 439,266,672

## ITEM 5 - FEES AND COMPENSATION

### Fee Schedule for Investment Advisory Services

Spectrum may provide its Clients with discretionary investment advisory services, investment and non-investment related consulting and financial planning on either a combined or stand-alone basis.

Clients can determine to engage Spectrum to provide discretionary investment advisory services on a fee-only basis. Spectrum generally encourages a minimum asset level of \$1 million to commence an engagement. Spectrum's annual investment advisory fee shall be based upon a percentage (%) of the market value of the account placed under Spectrum's management as follows:

#### Managed Accounts Fees:

Equity & Balanced / Investment Consulting Services	1.00% first \$5,000,000 0.60% next \$5,000,000 0.40% above \$10,000,000 10% discount for eleemosynary accounts
Fixed Income and Fixed Income Plus	0.60% first \$1,000,000 0.40% next \$7,000,000 0.25% next \$17,000,000 0.20% above \$25,000,000 10% discount for eleemosynary accounts
Cash Management	0.30% first \$3,000,000 0.20% next \$7,000,000 0.15% above \$10,000,000



### Emerging Wealth Management (Mutual Fund/ETF Models):

Accounts below \$750,000 are encouraged to use Spectrum's Emerging Wealth Management.

\$0 - \$750,000	1.65% Maximum
\$750,001 - \$5,000,000	1.00%
Next \$5,000,000	0.60%
Above \$10,000,000	0.40%

Spectrum's annual investment advisory fee shall be prorated and paid quarterly, in advance, based upon the market value of the account on the last business day of the previous quarter. For certain alternative investments, market values may be provided by the security sponsor less frequently than quarterly, and Spectrum will generally use the most recent reported value for purposes of calculating the advisory fee. Spectrum generally encourages a minimum asset level of \$1million to commence an engagement.

However, Spectrum, in its sole discretion, may modify this encouraged minimum asset level and/or charge a different (higher or lower) annual investment advisory fee based upon certain criteria (including but not limited to historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with Client, etc.). At its sole discretion, Spectrum may choose to "grandfather" certain fee arrangements in the event of a fee increase; therefore, newer Clients may pay a higher or different fee than certain older Clients.

### Sub-Advisory Relationships

Spectrum receives annual fees for our services through third party sub-advisory relationships. Fee amounts vary based upon the program, minimum investment requirements, and asset levels. The fees we receive for providing investment management services do not include other fees charged by the third party adviser to the client. Fees under these programs may be billed in arrears or advance, and Spectrum may be paid by the third party adviser or directly by the client, depending on the program. Clients using Spectrum as a sub-adviser through third party adviser may terminate our management services per the terms in the agreement, which vary by program.

## **Billing Method**

Spectrum offers each Client the option of having their investment advisory fees automatically deducted from their custodial account or being invoiced for their fees directly and remitting an acceptable form of payment upon receipt of the invoice. Under either method, Clients are provided with a copy of the invoice clearly showing the calculation of the fee as well as the time period their fee covers. Fees are normally deducted (or individually billed) once a quarter. This generally occurs around the fifteenth calendar day after the end of a given quarter. In the instance where Spectrum accepts a new investment advisory services agreement in the middle of a quarter, the Client account will be billed once for the prorated share of the fee based on the number of days remaining until the end of the quarter.

## Other Fees and Expenses

Unless the Client directs otherwise, or an individual Client's circumstances require it, Spectrum shall generally recommend that Schwab serve as the broker-dealer/custodian for the actual custody of the Client's investment advisory assets. Broker-dealers such as Schwab, TD Ameritrade, Wells Fargo Advisors, etc. charge brokerage commissions and/or transaction fees for effecting certain securities transactions (e.g., transaction fees are charged for certain no-load mutual funds, and commissions are charged for individual equity and fixed income securities transactions). In addition, a bank custodian, such as Comerica, will typically charge a custodial fee. When beneficial to the Client, individual debt or equity transactions may be effected through broker-dealers with whom Spectrum or the Client has entered into arrangements for prime brokerage clearing services (in which event, the Client shall incur both the transaction fee charged by the executing broker-dealer and a "tradeaway" fee charged by the custodian). In addition to Spectrum's investment advisory fee, brokerage commissions and/or transaction fees, the Client will also incur, relative to all mutual fund and exchange traded fund purchases, charges that are imposed at the fund level (e.g., management fees and other fund expenses). Consequently, Clients with mutual funds in their portfolios are effectively paying both Spectrum and the mutual fund manager for the management of their assets.

## Termination

As mentioned above, Spectrum'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. Either party may terminate the agreement upon thirty (30) days written notice to the other party. Client agreements in place prior to February 8, 2014, may not be subject to the 30 day notice period. Should an account terminate during a quarter for which fees have been paid in advance, a refund of the prorated fees will be processed. The effective termination date used to calculate the refund will be 30 days after we receive written notice of termination from the client, as noted above, or such other date as agreed upon with the client. Once the date is determined, all fees will be refunded on a prorated basis. The refund will be calculated based on the number of calendar days remaining in the quarter divided by the number of calendar days in the quarter itself. To the extent possible, refunds will be returned in the same form as received. If the fees were automatically deducted from a Client account, they will be returned to the Client account at the custodian. If the fees were paid directly by the Client to Spectrum, they will be refunded directly to the Client at their address of record.

## Other Compensation

No employees, owners or supervised persons of Spectrum receive any form of compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds. In the case of investments in mutual funds, Spectrum generally uses no load mutual funds for its Client investment advisory accounts.

## ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Spectrum does not charge nor receive any performance based fees from its Clients.

## ITEM 7 - TYPES OF CLIENTS

### Types of Clients & Account Requirements

The types of accounts Spectrum serves are as follows: trusts, individual, other investment advisers, foundations, corporations, and company retirement plans. Spectrum generally encourages a minimum asset level of \$1 million to commence an engagement. However, Spectrum, in its sole discretion, may modify this encouraged minimum asset level and/or charge a lesser annual investment advisory fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with Client, etc.).

Clients eligible to enroll in the iiP Program include individuals, IRAs, and revocable living trusts. Clients that are organizations (such as corporations and partnerships) or government entities, and Clients that are subject to the Employee Retirement Income Security Act of 1974, are not eligible for the iiP Program. The iiP Program Disclosure Brochure describes related minimum required account balances for maintenance of the account, automatic rebalancing, and tax-loss harvesting.

## ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### Methods of Analysis and Investment Strategies

The various methods of analysis are listed and described as follows:

- Fundamental Analysis - The analysis of the general financial health of companies
- Macro Economic Analysis - The analysis of business cycles to find favorable conditions for buying and/or selling a security
- Charting/Technical Analysis - The use of patterns in performance charts. Spectrum uses this technique to identify the relative strength of securities and economic sectors
- Interest Rate Analysis - The assessment of inflation expectations and real rate of return for interest rate trends
- Long-Term Trend Analysis - 2 to 5 year economic viewpoint
- Intermediate-Term Trend Analysis - 6 months to 2 year cyclical viewpoint
- Short-Term Trend Technical Analysis

In Spectrum's fixed income research, we focus on the major trends in world interest rates. Spectrum assesses certain global forces which influence interest rate expectations such as: inflation expectations, credit demand during a business cycle, and competitive, demographic and structural factors that affect world GDP.

In selecting equity securities, Spectrum utilizes a variety of fundamental and technical indicators to assess the strength of the market's conviction and sentiment toward a stock.

In selecting mutual funds, Spectrum performs a quantitative screening process by compiling statistical information on a fund, such as: returns, investment style, median market capitalization, sector weightings, turnover, and fees. From this information Spectrum determines which funds are the most attractive on a historical risk-adjusted basis in each asset-class categories in our models.

## **Investment Strategies**

Spectrum believes that each Client's objectives and risk parameters are unique. It is important to clarify those issues and translate them into an investment portfolio. By considering factors such as: growth goals, current income requirements, time horizons, distribution commitments and the prevailing investment environment, Spectrum creates an allocation between stocks, bonds, mutual funds and cash.

Client portfolios with similar investment objectives and asset allocation goals may own different securities. Timing and tax factors may influence our investment decisions. Clients for whom we buy or sell securities on the same day may receive different prices. Furthermore, Spectrum uses cash equivalents as a strategic asset. At any time, client accounts may hold significant levels of cash and/or cash equivalents. While high cash levels can help protect client's assets during periods of market decline, there is a risk that our timing in moving to cash is less than optimal upon either exit or reentry into the market, potentially resulting in missed opportunities during positive market moves.

### **Fixed Income Strategy**

Client portfolios are actively managed to follow interest rate trends. The average maturity of the bond portfolios is adjusted in anticipation of interest rate movements. This strategy seeks to be more defensive in a rising interest rate market by lowering duration and more aggressive in a declining interest rate market by increasing duration. Using a "barbell" strategy, which is a bond investment strategy that focuses on the balance between short and long maturities, Spectrum seeks to limit interest rate risk from rising rates and take advantage of declining rates. Average portfolio maturity may range from 0-20 years with an average duration of 1-12 years. This technique attempts to generate an attractive total return which includes current income. Certain high-yielding equity securities, Exchange Traded Funds (ETFs), and mutual funds may also be held in fixed income accounts to generate income.

### **Core Equity Strategy**

Spectrum's Core Equity Strategy uses a Growth at a Reasonable Price fundamental approach, coupled with a Sector Rotation Philosophy strongly influenced by Relative Strength and a Sell Discipline to protect principal. This strategy uses a sector rotation philosophy, in which we slowly rotate from one strong economic sector into what we believe is the next strong economic sector. In addition to fundamental analysis, Spectrum focuses on the Price Strength of a stock relative to the S&P 500. Our core equity composite is flexible in terms of market capitalization (though generally above \$500 million) and domestic/foreign exposure, as well as the use of Exchange Traded Funds (ETFs). Spectrum traditionally focuses in mid to large cap stocks with minor allocation in small caps. Spectrum adapts to the market conditions and at any given time may be over/under weighted in certain market cap,

domestic or foreign stocks, and/or certain economic sectors. This underweight and overweight can lead to over-performance or under-performance relative to the S&P 500.

### Mutual Fund/Exchange Traded Funds (ETFs) Model Strategy

As an alternative to our Fixed Income and Core Equity strategies, Spectrum also offers a variety of investment models using mutual funds and Exchange Traded Funds (ETFs). Our goal is to construct portfolios using funds that complement one another in various market conditions. We offer a number of models designed to achieve Client objectives.

## **Investing Involves Risk**

**Though we attempt to mitigate risk, investing in securities involves risk of loss that Clients should be prepared to bear.**

The following information is provided to illustrate some of the risks inherent in each of the investment strategies shown above:

### Fixed Income

Spectrum's primary focus is to build a core investment position of assets in fixed income instruments including: U.S. Treasury bills, notes or bonds, and instruments that are guaranteed by the U.S. government or its agencies, augmented by bonds of U.S. Corporations. In portfolios with the need for tax-free income, Municipal bonds are used. The market prices of debt securities fluctuate depending on such factors as interest rates, credit quality and maturity.

**Interest Rate Risk** - Fixed income securities increase or decrease in value based on changes in interest rates. If rates increase, the value of fixed income securities generally declines. Conversely, if rates fall, the value of the fixed income securities generally increases. If we fail to sell long maturity in a rising rate environment, bond values will decline.

**Credit Risk** - There is a risk that issuers will not make payments on the securities they issue. In addition, the credit quality of securities may be lowered if an issuer's financial condition changes. Lower credit quality may lead to greater volatility in the price of a security which may affect liquidity and lead to lower prices.

### Equities

The following information is provided to illustrate some of the risks inherent in investments in equities:

**Market Risk** - Overall stock market declines may affect the value of the investments in equity strategies. Factors such as U.S. and world economic growth and market conditions, interest rates, and political events affect the prices of equity securities. While our fundamental research will help Spectrum buy stocks at the right price, using Relative Strength assists us to identify the correct stock and sector at the "right time". When we are wrong, or the market changes course, our sell discipline helps to protect principal. However, market conditions can change more quickly than our selling of securities which may

lead to loss of principal. Our equity strategy at times involves active trading which may lead to short-term taxable gains and additional transaction fees.

Though we are generally patient, long-term investors, we have very strong convictions about selling assets when conditions deteriorate. Spectrum establishes predetermined price points or triggers that would cause us to sell all or a portion of an equity holding when one of the following sell disciplines are triggered:

- Appraisals for all stocks become rich
- Our original investment thesis changes
- An individual stock becomes overvalued
- A security price declines below our sell alert

We may fail to properly execute our sell discipline which could lead to loss of principal. In addition, we may fail to invest cash at times when stocks are rising which may lead to underperformance.

### Mutual Funds/ Exchange Traded Funds (ETFs)

Mutual funds and Exchange Traded Funds (ETFs) have internal costs such as management and distribution fees which will lower the net performance of an investment model. These internal fund fees are in addition to Spectrum's management fee. While we apply a sell discipline to our mutual fund models, Spectrum generally sells funds less quickly than our fixed income and equity income accounts. This may lead to greater losses than other Spectrum strategies and the market.

### Institutional Intelligent Portfolios

The iiP Program Disclosure Brochure includes a discussion of various risks associated with the iiP Program, including the risks of investing in ETFs, as well as risks related to the underlying securities in which ETFs invest. In addition, the iiP Program Disclosure Brochure also discusses market/systemic risks, asset allocation/strategy/diversification risks, investment strategy risks, trading/liquidity risks, and large investment risks.

## **Specific Security Risks**

Spectrum generally seeks investment strategies that do not involve significant or unusual risk beyond that of the general domestic and/or international equity and fixed income markets. However, many risks exist in investing. For risks related to equity, fixed income and mutual fund/ETF strategies, see section above. Investing in securities involves risk of loss that Clients should be prepared to bear. Securities markets experience significant degrees of volatility. Over time, a Client's assets may fluctuate and at any time be worth more or less than the amount invested.

## **ITEM 9 - DISCIPLINARY INFORMATION**

There have been no disciplinary actions brought against any employee, owner or supervised person of Spectrum in or by any of the following:

- A. A criminal or civil action in a domestic, foreign or military court of competent jurisdiction

- B. An administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority
- C. A self-regulatory organization (SRO) proceeding

## **ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Spectrum does not offer any other services or have any affiliates in the financial industry. Spectrum, on occasion as part of its investment consulting services to the Client, may recommend or select other investment advisers for its Clients. Besides its regular investment consulting fee for these services, Spectrum does not receive any commissions (either directly or indirectly) for doing so and as such does not have a conflict of interest to disclose.

## **ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

As an SEC-registered adviser, Spectrum is required by rule 204A-1 to have adopted a Code of Ethics acknowledged by all persons associated with Spectrum that clearly states Spectrum's position as it relates to business ethics and personal trading. The Code of Ethics articulates the importance of trust as a foundation to the relationship between Spectrum and its Clients and establishes policies and procedures that require Spectrum and all Associates to place the interest(s) of the Client(s) first.

Spectrum's Code of Ethics provides a very strict framework for all Associates to have the highest business ethics both in dealing with Clients and also how they handle their own financial investments. Each has acknowledged that the basic underlying important fact is that no action undertaken by an Associate of Spectrum shall be at the detriment of any Spectrum Client. A copy of Spectrum's Code of Ethics is available to any Client or prospective Client upon request.

### **Participation or Interest in Client Transactions**

Spectrum or any related person does not recommend to Clients, or buy or sell for Client accounts, securities in which Spectrum or a related person has a material financial interest.

### **Personal Trading**

If and when Spectrum or a related person invests in the same securities or related securities (e.g., warrants, options or futures) that Spectrum or a related person recommends to Clients, that investment will occur with (or after) all other trades have been made for Client accounts. No advantage in price or execution is granted to such investment.

## ITEM 12 - BROKERAGE PRACTICES

### Factors Considered in Selecting Broker-Dealers for Client Transactions

In the event that the Client requests that Spectrum recommend a broker-dealer/ custodian for execution and/or custodial services (exclusive of those Clients that may direct Spectrum to use a specific broker-dealer/custodian), Spectrum generally recommends that investment management accounts be maintained at Schwab. Clients participating in the iiP Program are required to use Schwab as custodian/broker to enroll in the iiP Program. The Client decides whether to use Schwab as the custodian/broker; however, if the Client does not wish to place his or her assets with Schwab, then we cannot manage the Client's account through the iiP Program. Prior to engaging Spectrum to provide investment management services, the Client will be required to enter into a formal Investment Advisory Agreement with Spectrum setting forth the terms and conditions under which Spectrum shall manage the Client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that Spectrum considers in recommending Schwab (or any other broker-dealer/custodian) to Clients include historical relationship with Spectrum, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by Spectrum's Clients shall comply with Spectrum'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 Spectrum 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 Spectrum will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for Client account transactions. As discussed in ***Other Fees and Expenses*** in ***Item 5***, above, Spectrum or the Client may also enter into prime brokerage arrangements. For smaller accounts, the Client's custodian may limit the ability to enter into prime brokerage arrangements and trade with outside broker-dealers; in these cases, Spectrum will place all trades for those accounts through the Client's custodian. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, Spectrum's investment management fee. Spectrum'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.

#### *Sub-Advisory Relationships*

Generally, the third party manager or platform provider will determine the custodian to be used when clients are introduced to us through sub-advisory relationships.



### Research and Other Benefits

Although not a material consideration when determining whether to recommend that a Client utilize the services of a particular broker-dealer/ custodian, Spectrum may receive from Schwab (or another broker-dealer/ custodian) without cost (and/or at a discount) support services and/or products, certain of which assist Spectrum to better monitor and service Client accounts maintained at such institutions. In particular, Spectrum receives from Schwab a discount on the PortfolioCenter software service. Included within the support services that may be obtained by Spectrum 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 Spectrum 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 Spectrum in managing and administering Client accounts. Others do not directly provide such assistance, but rather assist Spectrum to manage and further develop its business enterprise. 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 us with other benefits such as occasional business entertainment of our personnel.

Spectrum'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 Spectrum 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.

### Brokerage for Client Referrals

Neither Spectrum, any related person, nor any of its employees receives Client referrals from a broker-dealer or third party as a result of having selected a certain broker-dealer or third party to execute Client trades.

### Directed Brokerage

A Client may direct Spectrum to use a particular broker-dealer (subject to Spectrum's right to decline and/or terminate the engagement) to execute some or all transactions for the Client's account. In such event, the Client will negotiate terms and arrangements for the account with that broker-dealer, and Spectrum will not negotiate commissions on the Client's behalf, 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 Spectrum (which might allow Spectrum to negotiate volume commission discounts). As a result, the 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. In the event that the Client directs Spectrum to effect securities transactions for the Client's accounts through a specific broker-dealer, the Client correspondingly acknowledges that such direction may cause the account(s) 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 Spectrum. Additionally, Spectrum has a potential conflict between the Client's interest in obtaining best execution and its receiving future referrals from the designated brokers. For the reasons described above, Spectrum may not be obtaining best execution in directed brokerage transactions.

## **Aggregation and Allocation of Transactions**

Spectrum may aggregate transactions if we believe that aggregation is consistent with the duty to seek best execution for its Clients and is consistent with the disclosures made to Clients and terms defined in the Client's investment advisory agreement. Spectrum may aggregate trades in like securities among Client accounts as well as with accounts of Spectrum and our personnel. No Client will be favored over any other Client, and each account that participates in an aggregated order will participate at the average share price (per custodian) for all transactions in that security on a given business day. At Spectrum's discretion, all accounts will pay their individual transaction costs or will share in the aggregate transaction costs on a pro-rata basis.

Spectrum believes that by combining orders in this way it will be advantageous to all participants. However, the average price could be less advantageous to a particular Client than if that Client had been the only account effecting the transaction or had completed its transaction before the other participants.

Before entering an aggregated order for equities (or fixed income if the following procedure is feasible), Spectrum will generally create a pre-trade order specifying how we intend to allocate the order among the participating accounts. For other types of fixed income, it will establish an order for aggregation based on such factors as the prospective effect on Client accounts' average duration and credit quality, as well as the available cash in Client accounts. If the aggregated order is filled entirely, Spectrum will allocate shares among Clients according to the pre-trade order; if the order is partially filled, we will allocate it pro-rata according to the pre-trade order or on a different basis so long as all Client accounts receive fair and equitable treatment.

As described in the iiP Program Disclosure Brochure, SWIA may aggregate purchase and sale orders for ETFs across accounts enrolled in the iiP Program, including both accounts for our Clients and accounts for clients of other independent investment advisory firms using the iiP Program. Trades entered through the iiP Program are placed the next trading day. Depending on market movement, the price received by Clients in the iiP Program could be higher or lower than clients traded directly by Spectrum.

## **ITEM 13 - REVIEW OF ACCOUNTS**

### **Managed Account Reviews**

For those Clients for whom Spectrum provides investment advisory services, account reviews are conducted on an ongoing basis by Spectrum's Principals and/or its Associated Persons. All Clients are advised that it remains their responsibility to advise Spectrum of any changes in their investment

objectives and/or financial situation. All Clients are encouraged to review financial planning issues, investment objectives and account performance with Spectrum on an annual basis.

## Account Reporting

Clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer/custodian for their account(s) at least quarterly. For those Clients for whom Spectrum provides investment advisory services, Spectrum provides a written summary of account performance along with reports summarizing account positions and balances at the end of each quarter. Clients are encouraged to compare the account statements they receive from Spectrum with the account statements they receive from the custodian. Please contact Tony Jung at 949-717-3400 or the custodian if you have any questions about either of the account statements that you receive.

## ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION

We receive an economic benefit from Schwab in the form of the support products and services it makes available to us. These products and services, how they benefit us, and the related conflicts of interest are described above under **Item 12 – Brokerage Practices**. The availability to us of Schwab's products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

If a Client is introduced to Spectrum by a solicitor, Spectrum may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940. Any such referral fee shall be paid solely from Spectrum's investment advisory fee, and shall not result in any additional charge to the Client. If the Client is introduced to Spectrum by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of the solicitor relationship, and shall provide each prospective Client with a copy of Spectrum's written disclosure statement as is set forth in this brochure, together with a copy of the written disclosure statement from the solicitor to the Client disclosing the terms of the solicitation arrangement between Spectrum and the solicitor, including the compensation to be received by the solicitor from Spectrum.

Spectrum may refer clients to unaffiliated professionals for specific needs, such as accountants, attorneys, or real estate brokers. In turn, these professionals may refer clients to Spectrum for investment management and financial planning needs. We do not have any formal arrangements with individuals or companies that we refer clients to, and we do not receive or offer compensation for these referrals. However, it could be concluded that Spectrum is receiving an indirect economic benefit from this practice, as the relationships may be mutually beneficial.

## ITEM 15 - CUSTODY

Clients will engage an independent broker-dealer/custodian to maintain their account(s) and, as such, Spectrum will not have physical custody of Client assets, monies or securities. However, since Spectrum may withdraw investment advisory fees directly from Clients' accounts, as described in **Item 5 - Fees and Compensation**, above, Spectrum is considered to have custody in a limited capacity. Again, this custody

is due solely to the direct withdrawal of fees and does not entail all of the same legal and regulatory requirements as an independent investment adviser with physical custody of Clients' assets, monies or securities. How statements are sent by both the broker-dealer/custodian and Spectrum are discussed in **Item 13 – Review of Accounts**, above.

## ITEM 16 - INVESTMENT DISCRETION

Currently, Spectrum allocates Client investment assets on a discretionary or non-discretionary basis among various individual equity and fixed income securities and mutual funds, in accordance with the Client's designated investment objective(s). In the event that the Client requests that Spectrum recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those Clients that may direct Spectrum to use a specific broker-dealer/custodian), Spectrum generally recommends that investment advisory accounts be maintained at Schwab. Prior to engaging Spectrum to provide investment advisory services, the Client will be required to enter into a formal Investment Advisory Agreement with Spectrum setting forth the terms and conditions under which Spectrum shall manage the Client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian that provides the necessary power of attorney agreeing to allow Spectrum to execute certain transactions in Client accounts.

Certain Client-imposed conditions may limit our discretionary authority, such as where the Client prohibits transactions in specific security types or directs Spectrum to execute transactions through specific broker-dealers. See also **Tailored Services and Client Imposed Restrictions** under **Item 4** and **Item 12 – Brokerage Practices**, above.

## ITEM 17 - VOTING CLIENT SECURITIES

### Proxy Voting

Unless a Client directs otherwise, in writing, Spectrum shall be responsible 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 assets. Spectrum and/or the Client shall correspondingly instruct each custodian of the assets to forward to Spectrum copies of all proxies and shareholder communications relating to the assets. Spectrum maintains written proxy voting guidelines in an effort to confirm that shares are voted in the best interest of Clients and the value of the investment. It may, in some cases, vote a proxy contrary to our guidelines if it determines that such action is in the best interests of Clients. To the extent any conflict of interest is presented, if ever, Spectrum will maintain information pertaining to how it addressed the conflict. Spectrum shall monitor corporate actions of individual issuers and investment companies consistent with Spectrum's fiduciary duty to vote proxies in the best interests of its Clients. With respect to individual issuers, Spectrum may be solicited to vote on matters including corporate governance and adoption or amendments to compensation plans (including stock options) and matters involving social issues and corporate responsibility. With respect to investment companies (e.g., mutual funds), Spectrum may be solicited to vote on matters including the approval of advisory contracts, distribution plans and mergers. Spectrum shall maintain records

pertaining to proxy voting as required pursuant to Rule 204-2(c)(2) under the Advisers Act. In addition, a copy of Spectrum's proxy voting policies and procedures or information pertaining to how Spectrum voted on any specific proxy issue is also available upon written request to Tony Jung at the address on the cover page of this brochure.

As described in the iiP Program Disclosure Brochure, Clients enrolled in the iiP Program designate SWIA to vote proxies for the ETFs held in their accounts. We have directed SWIA to process proxy votes and corporate actions through and in accordance with the policies and recommendations of a third party proxy voting service provider retained by SWIA for this purpose. Additional information about this arrangement is available in the iiP Program Disclosure Brochure. Clients who do not wish to designate SWIA to vote proxies may retain the ability to vote proxies themselves by signing a special Schwab form available from us.

## **Class Actions**

Spectrum does not instruct or give advice to Clients on whether or not to participate as a member of class action lawsuits and will not automatically file claims on the Client's behalf. Spectrum will not proactively monitor class actions or file on behalf of Clients. However, if a Client notifies Spectrum that they wish to participate in a class action, it will assist the Client with filing a proof of claim in the class action.

## **ITEM 18 - FINANCIAL INFORMATION**

Spectrum does not require or solicit the prepayment of more than \$1,200.00 in fees per Client, six months or more in advance, and therefore Spectrum is not required to provide a copy of its Balance Sheet in this section.