

SMS Investment Company, LLC

Part 2A of Form ADV

The Brochure

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This brochure provides information about the qualifications and business practices of SMS Investment Company, LLC (“SMSIC”). If you have any questions about the contents of this brochure, please contact us at 253-851-4300. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

SMSIC is a registered investment adviser. Registration as an investment adviser does not imply any level of skill or training.

Additional information about SMSIC is also available on the SEC’s website at: www.adviserinfo.sec.gov.

Item 2. Material Changes

This Form ADV Part 2 Disclosure Brochure (“Brochure”) is the annual updating amendment of the Brochure. There are no material changes being made to this Disclosure Brochure and no material changes have been made to the Brochure since the March 2016 annual updating amendment.

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Item 4. Advisory Business

Firm History and Principal Owners

SMSIC was founded in April 2001 and is a wholly owned subsidiary of Threshold Group, LLC (“Threshold Group”). Threshold Group is primarily owned by RT Management LLC, which is primarily owned by the 2006 Threshold Return of Capital Trust. Edward Lazar, SMSIC’s Manager, and James Morton are the trustees of the 2006 Threshold Return of Capital Trust.

Services Provided

SMSIC was established to provide investment consulting services to foundations and a variety of high net worth individuals and families, and to the various business structures that they have organized.

SMSIC will assist the client in creating the financial foundation that supports each client’s lifestyle, legacy, and asset goals. Services offered by SMSIC include:

- Objective setting – Defining client investment objectives, return on investment expectations and risk tolerance;
- Governance – Working with clients to establish decision-making systems and processes for running their investment program;
- Asset Allocation – Developing models to allocate client assets among asset classes (e.g., equity, debt, government, foreign securities and real estate) to achieve client objectives;
- Asset Class Structure, Investment Manager Review and Monitoring – Developing guidelines for selected money managers, through separately managed accounts, pooled investment vehicles and mutual funds (collectively, “Investment Managers”); establishing the characteristics of the assets to be committed to each Investment Manager; providing information with respect to the potential Investment Managers to each asset class. Developing a process to monitor the progress of the investments toward the established objectives.

Depending on the client’s needs, SMSIC may also provide some or all of the following services with respect to some or all of the client’s assets:

- Performance –Providing clients periodic reports with actual and comparative portfolio performance;
- New Developments – Advising clients on new investment products and alternatives to keep pace with the changes in the marketplace;
- Special Projects – Assisting clients on special projects in a wide variety of areas including research and development.

When SMSIC is providing investment advisory services to clients, SMSIC provides advice concerning the structure of a client’s portfolio but not with respect to underlying securities. SMSIC recommends money managers through separately managed accounts, private investment

funds, mutual funds, and ETFs (collectively, “Investment Managers”), to make portfolio investments in accordance with specified investment objectives on portions of the total portfolio. SMSIC will recommend Investment Managers selected according to the investment objectives and risk tolerance level of the client.

Additional information about Investment Managers, investment strategies, advisory fees and other pertinent information is available and provided in the Form ADV Part 2 or other disclosure brochure of the Investment Managers.

As noted above, SMSIC does not provide continuous and regular investment management or supervisory services and currently does not have any clients. Its sole basis for SEC registration is that it is a wholly owned subsidiary of, and shares a principal place of business with, Threshold Group, an SEC registered investment adviser that provides continuous and regular discretionary and non-discretionary investment advisory services.

Item 5. Fees and Compensation

Information on Fees

SMSIC's fees are negotiated on a flat-fee basis only. Clients are billed quarterly in arrears. Clients will not be charged a performance-based fee. There is no minimum fee for these services and no standard fee schedule, as SMSIC does not solicit for new clients.

Fees are based on the services required, which depend upon the account assets for which SMSIC has consulting responsibilities, the recent rate of growth of a client's assets, breadth and depth of services required by the client and other relevant factors. Clients may arrange commission recapture arrangements through broker-dealers that can be used to offset the out-of-pocket costs of SMSIC's services. While SMSIC will make arrangements to accept payment through such broker-dealers, SMSIC has no responsibility to negotiate such arrangements on the clients' behalf.

The fees charged by SMSIC are separate and distinct from the fees charged by recommended Investment Managers. A description of these Investment Manager fees is available in each mutual fund's prospectus and private investment fund's and investment manager's disclosure documents. Similarly, SMSIC's fees are separate and distinct from the fees and expenses charged by mutual funds and private investment funds which may be purchased by a recommended Investment Manager. These fees are also separate from any custodial fees. A description of these fees and expenses is available in each fund's prospectus and disclosure document.

Clients will also incur brokerage and other transaction costs, as further described in Item 12 - *Brokerage Practices* below.

SMSIC does not independently value any securities held in client accounts. The periodic financial and performance information provided by the private funds themselves will be used as the basis for client reporting. This valuation is determined independently of SMSIC. For marketable securities, the prices provided by custodians are used for client reporting and fee billing.

While SMSIC makes every effort to obtain account balances directly from the custodian, for reporting purposes SMSIC may request that clients regularly provide SMSIC with copies of account statements.

Termination

A client agreement may be canceled at any time, by either party, for any reason upon receipt of 30 days' written notice.

Item 6. Performance Based Fees and Side-by-Side Management

Clients will not be charged a performance-based fee by SMSIC. Some investment advisers experience conflicts of interest in connection with the side-by-side management of accounts with different fee structures. However, these conflicts of interest are not applicable to SMSIC.

Item 7. Types of Clients

SMSIC most recently provided investment advisory services to a foundation and previously has also provided investment advisory services to high net worth individuals and families, and to the various business structures that they have organized. SMS currently is not providing investment advisory services to any clients.

SMSIC currently does not expect to accept new clients but reserves the right to do so.

Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis and Investment Strategy

SMSIC recommends various investment strategies when providing asset allocation recommendations to clients. The recommended strategies are based upon a client's goals and objectives. SMSIC will evaluate various investment alternatives to form a basis for the client in determining the strategies needed to achieve the client's investment goals and objectives.

When providing investment advisory services to clients, SMSIC uses a variety of sources to identify appropriate Investment Managers for clients. For example, SMSIC will use published databases of mutual funds, ETFs, and investment manager performance. SMSIC does not independently audit or verify the performance figures reported by the Investment Managers that appear in these databases.

Risk of Loss - General

All investing involves a risk of loss and the investment strategy offered by SMSIC could lose money over short or even long periods. Performance could be negatively impacted by a number of different market risks including, but not limited to, that portfolio management techniques used by SMSIC may not produce the desired results. This could cause accounts to decline in value. In addition, SMSIC may rely on information that turns out to be wrong. SMSIC selects investments based, in part, on information provided by issuers to regulators or made directly available to SMSIC by the issuers or other sources. SMSIC is not always able to confirm the completeness or accuracy of such information, and in some cases, complete and accurate information is not available. Incorrect or incomplete information increases risk and may result in losses.

Potential Risks of Investing in Securities Purchased in Mutual Funds, ETFs, and by Investment Managers:

Stock Market Risk - Stock market risk is the possibility that stock prices overall will decline over short or extended periods. Markets tend to move in cycles, with periods of rising prices and periods of falling prices.

Investing in small- and medium-sized companies involves greater risk than is customarily associated with more established companies. Stocks of such companies may be subject to more volatility in price than larger company securities.

Foreign Securities Risk - Foreign securities are subject to the same market risks as U.S. securities, such as general economic conditions and company and industry prospects. However, foreign securities involve the additional risk of loss due to political, economic, legal, regulatory, and operational uncertainties; differing accounting and financial reporting standards; limited availability of information; currency conversion; and pricing factors affecting investment in the securities of foreign businesses or governments.

Interest Rate Risk - Bonds also experience market risk as a result of changes in interest rates. The general rule is that if interest rates rise, bond prices will fall. The reverse is also true: if interest rates fall, bond prices will generally rise. A bond with a longer maturity (or a bond fund with a longer average maturity) will typically fluctuate more in price than a shorter term bond. Because of their very short-term nature, money market instruments carry less interest rate risk.

Credit Risk - Bonds and bond mutual funds are also exposed to credit risk, which is the possibility that the issuer of a bond will default on its obligation to pay interest and/or principal. U.S. Treasury securities, which are backed by the full faith and credit of the U.S. Government, have limited credit risk, while securities issued or guaranteed by U.S. Government agencies or government-sponsored enterprises that are not backed by the full faith and credit of the U.S. Government may be subject to varying degrees of credit risk. Corporate bonds rated BBB or above by Standard & Poor's are generally considered to carry moderate credit risk. Corporate bonds rated lower than BBB are considered to have significant credit risk. Of course, bonds with lower credit ratings generally pay a higher level of income to investors.

Liquidity Risk - Liquidity risk exists when a particular security is difficult to trade. A mutual fund's investment in illiquid securities may reduce the returns of the mutual fund because the mutual fund may not be able to sell the assets at the time desired for an acceptable price, or might not be able to sell the assets at all.

Call Risk - Many fixed income securities have a provision allowing the issuer to repay the debt early, otherwise known as a "call feature." Issuers often exercise this right when interest rates are low. Accordingly, holders of such callable securities may not benefit fully from the increase in value that other fixed income securities experience when rates decline. Furthermore, after a callable security is repaid early, a mutual fund would reinvest the proceeds of the payoff at current interest rates, which would likely be lower than those paid on the security that was called.

Objective/Style Risk - All of the mutual funds and investment managers are subject, in varying degrees, to objective/style risk, which is the possibility that returns from a specific type of security in which a mutual fund or manager invests will trail the returns of the overall market.

U.S. Government Agency Securities Risk - Securities issued by U.S. Government agencies or government-sponsored entities may not be guaranteed by the U.S. Treasury. If a government-sponsored entity is unable to meet its obligations, the securities of the entity will be adversely impacted.

Potential Risks of Investing in Private Investment Funds:

General

Private investment funds generally involve various risk factors and liquidity constraints, a complete discussion of which is set forth in each fund's offering documents, which will be provided to each client for review and consideration. Investing in private investment funds is intended for experienced and sophisticated investors only who are willing to bear the high

economic risks of the investment. Investors should carefully review and consider potential risks before investing. Certain of these risks may include loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices, lack of liquidity because of redemption terms and conditions and that there may not and will not be a secondary market for the fund, volatility of returns, restrictions on transferring interests in the fund, a potential lack of diversification, higher fees than mutual funds, lack of information regarding valuations and pricing, and advisor risk. Each prospective client investor will be required to complete a subscription agreement with the private investment fund itself, pursuant to which the client investor shall establish that he/she/it is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment. Private investment funds have liquidity risk and investors may not be able to redeem their investment per the offering document's disclosures.

In certain situations, SMSIC may select or recommend to a number of its clients investments in certain private funds that invest in illiquid assets, including interests in other private funds (i.e., funds of funds). As a result, to the extent that SMSIC's clients collectively own a material interest in such private funds, a determination/recommendation by SMSIC for clients to simultaneously liquidate their holdings in one or more of these private funds may cause the private funds' managers to be forced to liquidate underlying positions quickly and therefore reduce the opportunity to realize maximum value for certain illiquid positions held by the fund. Similarly, in order to protect their funds from perceived inopportune liquidations, the private fund managers may impose restrictions on redemptions, otherwise known as "gating" the private fund.

Risks Associated with Investing in Private Equity and Private Real Estate Funds

Long-term investment - Unlike mutual funds, which generally invest in publicly traded securities that are relatively liquid, private equity funds generally invest in large amounts of illiquid securities from private companies. Depending on the strategy used, private real estate funds will have illiquid underlying investments that may not be easily sold, and investors may have to wait for improvements or development before any redemption. Given the illiquid nature of the underlying purchases made by private equity and private real estate managers, private equity and private real estate funds are considered long-term investments. Private equity funds are generally set up as 10- to 15-year investments with little or no provision for investor redemptions. Private real estate funds are generally seven- to ten-year investments and also have limited provisions for redemptions. With long-term investments, you should consider your financial ability to bear large fluctuations in value and hold these investments over a number of years.

Difficult Valuation Assessment - The portfolio holdings in private equity and private real estate funds may be difficult to value, because they are not usually quoted or traded on any financial market or exchange. As such, no easily available market prices for most of a fund's holdings are available. Additionally, it may be hard to quantify the impact a manager has had on underlying investments until those investments are sold.

Lack of Liquidity - Private equity and private real estate funds are not "liquid" (they cannot be sold or exchanged for cash quickly or easily), and the interests are typically nontransferable without the consent of a fund's general partner. As a result, private equity and private real estate

funds are generally only suitable for sophisticated investors who have carefully considered their financial capability to hold these investments for the long term.

Capital Call Default Consequences - Answering capital calls to provide managers with the pledged capital is a contractual obligation of each investor. Failure to meet this requirement in a timely manner could elicit significant adverse consequences, including, without limitation, the forfeiture of the defaulting investor's interest in the fund.

Leverage - Private equity and private real estate funds may use leverage in connection with certain investments or participate in investments with highly leveraged capital structures. Although the use of leverage may enhance returns and increase the number of investments that can be made, leverage also involves a high degree of financial risk and may increase the exposure of such investments to factors such as rising interest rates, downturns in the economy or deterioration in the condition of the assets underlying such investments.

Item 9. Disciplinary Information

SMSIC and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

Item 10. Other Financial Industry Activities and Affiliations

General

Neither SMSIC nor any of its related persons receive any form of compensation from any recommended Investment Manager.

Indirect owners of SMSIC may be investors and/or partners/members in private investment partnerships, limited liability companies, or corporations that invest in securities or private equity opportunities. Certain of the investors in the private investment partnerships, limited liability companies or corporations may also independently be clients of SMSIC. SMSIC does not act as an adviser, sponsor or placement agent for these private investment partnerships, limited liability companies or corporation.

Threshold Group

SMSIC is a wholly owned subsidiary of Threshold Group, an SEC registered investment adviser. Threshold Group is an independent, family-owned wealth management firm that provides customized investment advisory and family office services. Threshold provides a comprehensive range of investment and family wealth services, including global asset allocation; manager selection and oversight; financial record-keeping and reporting; estate, tax, financial and philanthropic planning, and wealth education. As of December 31, 2016, Threshold Group managed approximately \$1,479,824,361 on a discretionary basis and approximately \$1,883,169,895 on a non-discretionary basis covering a total of approximately 70 accounts.

Personnel

Edward Lazar, the manager of SMSIC and president of Threshold Group, spends a de minimus amount of his time on activities related to SMSIC.

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

To avoid any potential conflicts of interest involving personal trades, SMSIC has adopted a Code of Ethics (“COE”), which includes personal trading reporting and review policies and procedures and insider trading policies and procedures. SMSIC’s COE requires, among other controls, that supervised persons:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets;
- Place the integrity of the investment profession, the interests of clients, and the interests of SMSIC above one’s own personal interests;
- Adhere to the fundamental standard that one should not take inappropriate advantage of his or her position;
- Avoid any actual or potential conflict of interest wherever possible;
- Conduct all personal securities transactions in a manner consistent with the COE;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities;
- Practice and encourage others to practice in a professional and ethical manner that will reflect positively on oneself and the profession;
- Promote the integrity of, and uphold the rules governing, capital markets;
- Maintain and improve one’s professional competence and strive to maintain and improve the competence of other investment professionals; and
- Comply with applicable provisions of the federal securities laws.

SMSIC’s COE also requires supervised persons to: 1) report personal securities transactions on at least a quarterly basis, and 2) provide SMSIC with a detailed summary of certain holdings and securities accounts (both initially upon commencement of employment and annually thereafter) over which such supervised persons have a direct or indirect beneficial interest.

A copy of SMSIC’s COE is available to any client or prospective client by contacting SMSIC at 253-851-4300.

Some of the indirect owners of SMSIC are investors and partners or members in several private investment partnerships, limited liability companies or corporations that invest in securities or private equity opportunities. It is not contemplated that these investments will be offered to all clients of SMSIC, although certain legacy clients may have invested in these vehicles.

In the normal course of business, managers, members and/or associated persons of SMSIC may provide gifts and gratuities to various clients and other persons. These gifts, gratuities and contributions are not premised upon any specific client referrals or any expectation of any other type of benefit to SMSIC.

Item 12. Brokerage Practices

General

While SMSIC does not have brokerage discretion over client accounts, at the client's request, SMSIC may recommend broker-dealers to execute transactions for the client's account. Commission rates, being a component of price, are one factor considered by SMSIC together with other factors. In making broker-dealer recommendations, SMSIC is not obligated to seek in advance competitive bidding for the most favorable commission rate applicable to any particular transaction for the client's account or recommend any broker or dealer on the basis of its purported posted commission rate. Accordingly, brokers or dealers may charge commission rates in excess of the amounts another broker or dealer would have charged for effecting transactions when SMSIC has determined in good faith that the broker's or dealer's commission rates generally are reasonable in relation to the value of the brokerage and/or research provided by the broker or dealer.

Each Investment Manager that SMSIC selects/recommends to its clients generally will have investment discretion over that portion of the client's accounts managed by the particular Investment Manager. The client will have a direct contractual relationship with each such Investment Manager and should receive disclosures from each such Investment Manager of its internal practices, including allocation brokerage, aggregation of orders, and use by the Investment Manager of "soft dollars" to obtain research products and services from broker-dealers based on customer orders placed through the brokers. The designation by a client of a particular broker-dealer for execution of client account transactions (particularly if it differs from the brokers used by that Investment Manager for execution of most of the Investment Manager's other client accounts) may affect the commission rates and the method and pricing of execution of the client's account transactions for the portion of the client's portfolio managed by a particular Investment Manager. The client is urged to review each Investment Manager's disclosures on brokerage practices in deciding whether to direct the Investment Manager to use a particular broker-dealer for execution of the client's portfolio transactions.

Directed Brokerage

Clients may establish a relationship with a broker and consequently, SMSIC will have no ability to negotiate the cost of brokerage or execution services on the client's behalf. Clients directing the use of a particular broker may not receive best execution.

Item 13. Review of Accounts

When SMSIC is providing investment advisory services to clients, client accounts generally are reviewed on a monthly or quarterly basis. Additional triggering factors include material changes in a client's financial situation, as well as political and economic events. SMSIC currently is not providing investment advisory services to any clients.

The performance of the Investment Managers is generally reviewed as information is received from such Investment Managers. The timeliness of these reviews is based upon the accessibility of information from Investment Managers. Additional triggering factors include changes in an Investment Manager's management team, as well as political and economic events.

Clients are furnished with an appraisal of their portfolio assets on a cycle agreed to with the client. Many clients receive no reporting directly from SMSIC.

Item 14. Client Referrals and Other Compensation

SMSIC does not directly or indirectly compensate any person for client referrals.

Item 15. Custody

When SMSIC is providing investment advisory services to clients, client accounts are held in physical custody by unaffiliated broker-dealers or banks. Account custodians send statements directly to the account owners on at least a quarterly basis. Clients should carefully review these statements, and should compare these statements to any account information and statements provided by SMSIC.

Item 16. Investment Discretion

SMSIC does not have any type of trading authority over client accounts.

Each Investment Manager that SMSIC recommends to its clients generally will have investment discretion over that portion of the client's accounts managed by the particular Investment Manager.

In performing any of its services, SMSIC shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon.

Item 17. Voting Client Securities

SMSIC will not exercise proxy voting authority over client securities. The obligation to vote client proxies shall at all times rest with clients. Clients shall in no way be precluded from contacting SMSIC for advice or information about a particular proxy vote. However, SMSIC shall not be deemed to have proxy voting authority solely as a result of providing such advice to clients.

Should SMSIC inadvertently receive proxy information for a security held in a client's account, then SMSIC will immediately forward such information on to the client, but will not take any further action with respect to the voting of such proxy. Upon termination of its agreement with a client, SMSIC shall make a good faith and reasonable attempt to forward proxy information inadvertently received by SMSIC on behalf of the client to the forwarding address provided by the client to SMSIC.

With regard to all matters (other than proxies) for which shareholder action is required or solicited with respect to securities beneficially held in clients' accounts, such as (i) all matters relating to class actions, including without limitation, matters relating to opting in or opting out of a class and approval of class settlements and (ii) bankruptcies or reorganizations, SMSIC disclaims responsibility for electing/voting (by proxies or otherwise) on such matters and will not take any action with regard to such matters.

Item 18. Financial Information

SMSIC has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client account.