

# **Austin Capital Asset Management, LLC**

**1700 Pacific Avenue**

**Suite 3650**

**Dallas, TX 75201**

**(214) 624-1006**

**[www.abetterwaytoretire.com](http://www.abetterwaytoretire.com)**

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This Brochure provides information about the qualifications and business practices of Austin Capital Asset Management, LLC. If you have any questions about the contents of this Brochure, please contact us at (214) 624-1006 or via email at [info@austincapitalllc.com](mailto:info@austincapitalllc.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Austin Capital Asset Management, LLC is a Registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information that you may use to determine whether to hire or retain them. Additional information about Austin Capital Asset Management, LLC is also available on the SEC's web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 - Material Changes

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Since our last filing on March 28, 2016, there has been no material changes to our ADV Part 2.

We will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year which is December 31st. We will provide other ongoing disclosure information about material changes as necessary. We will also provide you with a new Brochure, as necessary, based on changes or new information. Currently, our Brochure may be requested at any time, without charge, by contacting Charles Ponicki at 214-624-1021.

Additional information about Austin Capital Asset Management, LLC ("ACAM") is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by using a unique identifying number, known as a CRD number. The CRD number for ACAM is 147869. The SEC's web site also provides information about any persons affiliated with ACAM who are registered, or are required to be registered, as investment adviser representatives of ACAM.

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## Item 4 - Advisory Business Introduction

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Austin Capital Asset Management, LLC ("ACAM") is a Registered Investment Adviser ("Adviser") which offers investment advice, portfolio management, securities and other financial services to clients and investment advisors. We are registered with and regulated by the United States Securities and Exchange Commission ("SEC").

ACAM was founded in 1993 with a vision to provide portfolio management services to individuals, high net worth individuals, trusts, estates, corporate pension and profit-sharing plans, charitable organizations, foundations, endowments, corporations and small businesses through investment advisors associated with our firm. We also offer access to a turnkey asset management program ("TAMP") to independent investment advisors ("Advisors") for use with their clients.

We offer portfolios that are structured so that a lack of performance in one asset class is offset by over performance in another asset class. We have the ability to invest in any market anywhere in the world to help us achieve global diversification with the objective that no one market or asset has too large an impact. We endeavor to be invested in most asset classes while varying the allocation to those we feel will perform best. We can also select portfolios that work to manage the risk and volatility of the portfolio. We do not focus on just achieving a certain return for any client.

As of 12/31/2016, we provided asset management services for 250 accounts, managing total assets of \$245,548,510. Of this amount, we managed \$212,066,980 on a non-discretionary basis and \$33,481,530 on a discretionary basis.

This amount is managed on a discretionary basis which means, you have given us the authority to determine the following without your consent:

- Securities to be bought or sold for the account
- Amount of securities to be bought or sold for the account

While we may have trading discretion on your account (i.e., placing trades in your account without your approval) we are not authorized to withdraw any money, securities or other property from your account. We may have to trade in your account to meet initial allocation targets, after substantial cash deposits that require investment allocation, and/or after a request for a withdrawal that requires liquidation of a position. Additionally, your account may be rebalanced or reallocated periodically in order to reestablish the targeted percentages of your investment program allocation. You will be responsible for any and all tax consequences resulting from any rebalancing or reallocation of the account. We are not tax professionals and do not give tax advice; however, we will work with your tax professionals to assist you with tax planning. You will have the opportunity to meet with us periodically to review the assets in your account.

We are committed to the precept that by placing the clients' interests first, we will add value to the asset management process and earn the client's trust and respect. We value long term relationships with our clients whom we regard as strategic partners in our business.

## 1. Asset Management Services

Asset management is the professional management of securities (stocks, bonds and other securities) and assets (e.g., real estate) in order to meet your specified investment goals. With an Asset Management Account, you engage us to assist you in developing a personalized asset allocation program and custom-tailored portfolio designed to meet your unique investment objectives. The investments in the portfolio account may include but not limited to mutual funds, stocks, bonds, equity options, futures, and Exchange Traded Funds (ETF).

We provide investment advisory services to both retail clients (smaller accounts of individuals, IRAs, trusts & employee benefit plans) and institutional clients (larger accounts of corporate pension plans, public funds, foundations, & other tax exempt entities).

We will:

- Review your present financial situation
- Monitor and track assets under management
- Provide portfolio statements, periodic rate of return reports, asset allocation statement, rebalanced statements as needed
- Advise on asset selection
- Determine market divisions through asset allocation models
- Provide research and information on performance and fund management changes
- Build a risk management profile for you
- Assist you in setting and monitoring goals and objectives
- Provide personal consultations as necessary upon your request or as needed

You must notify us promptly when your financial situation, goals, objectives, or needs change.

Under certain conditions, securities from outside accounts may be transferred into your advisory account. However, we may recommend that you sell any security if we believe that it is not suitable for the current recommended investment strategy. You are responsible for any taxable events in these instances. We do not provide tax advice or tax management services. You should always consult with your tax advisor for specific tax advice. Certain assumptions may be made with respect to interest and inflation rates and the use of past trends and performance of the market and economy. Past performance is not an indication of future performance.

Your account can be managed in a tax aware manner; however, we do not provide tax advice or tax management services. You shall have the ability to impose reasonable restrictions on the management of your account, including the ability to instruct us not to purchase certain mutual funds, stocks or other securities. These restrictions may be a specific company security, industry sector, asset class, or any other restriction you request.

If you decide to implement our recommendations, we will help you open a custodial account(s). The funds in your account will be held at an independent custodian, not with us. We recommend and may require you to use a custodian of our choice; however, you may be able to use another custodian. The identity of your custodian will be communicated to you before the account is opened. You will enter into a separate custodial agreement with the custodian. This agreement, among other things, authorizes the custodian

to take instructions from us regarding all investment decisions for your account. We will select the securities bought and sold and the amount to be bought and sold, within the parameters of the objectives and risk tolerance of your account. The custodian will effect transactions, deliver securities, make payments and do what we instruct. You will at all times maintain full and complete ownership rights to all assets held in your account, including the right to withdraw securities or cash, proxy voting and receiving transaction confirmations.

You will receive, at least quarterly, a statement containing a description of all the activity in your account. This statement lists the total value at the start of the month, itemizes all transaction activity during the month, and lists the types, amounts, and total value of securities held as of the end of the month. Your statement may be in either printed or electronic form based upon your preferences.

We will also provide you with a quarterly performance statement starting at the end of the first full calendar quarter after signing the Client Advisory Agreement. These statements give you additional feedback regarding performance, educate you about our long-term investment philosophy, and describe any changes in current strategy and allocation along with the reasons for making these changes.

We are available during normal business hours either by telephone, fax, email, or in person by appointment to answer your questions.

### **Retail Services**

If you are a retail client we will meet with you to discuss your financial circumstances, investment goals and objectives, and to determine your risk tolerance. Our meeting will include your completion of an Investment Questionnaire which will assist us in the selection of your financial objective. We will ask you to provide statements summarizing current investments, income and other earnings, recent tax returns, retirement plan information, other assets and liabilities, wills and trusts, insurance policies, and other pertinent information as applicable. Based on the information you share with us, we will analyze your situation and recommend an appropriate asset allocation or investment strategy. You will be provided with a targeted strategic allocation of assets by class, as well as investment advice. If the objective appears suitable, we will invest your assets in a manner deemed consistent with the objective.

Our recommendations and ongoing management is based upon your investment goals and objectives, risk tolerance, and the investment portfolio you have selected. We will monitor the account, trade as necessary, and communicate regularly with you. Your circumstances shall be monitored in quarterly and annual account reviews. These reviews will be conducted in person, by telephone conference, and/or via a written inquiry/questionnaire. We will work with you on an ongoing basis to evaluate your asset allocation as well as rebalance your portfolio to keep it in line with your goals as necessary. We will be reasonably available to help you with questions about your account.

### **Institutional Services**

If you are an institutional client, your accounts are managed in accordance with the investment objectives, guidelines & restrictions you establish. Purchases and sales of securities for your accounts are executed by either broker-dealer firm we select, broker-dealers that provide to us custodial or other services; or Austin Capital Trust Company, LLC. The trust company is affiliated with ACAM. We generally impose a minimum dollar amount of \$500,000 of assets for Institutional accounts, however smaller accounts may be accepted depending upon the specific circumstances of an account.

## **2. Investment Programs**

Our retail investment programs range from fixed income, which has more conservative goals, to equity objectives, which have more aggressive goals. In general, increases in short-term risk have a greater potential for both reward & risk while more conservative objectives offer more modest rewards with less risk. Through our research and analysis we have developed three primary investment programs; these programs consist of a spectrum of portfolios that include asset allocations representing Growth, Balanced and Conservative. We will advise on which portfolio or combination of portfolios we believe most appropriately fit your investment objectives and goals. Descriptions of each of the portfolios which are available to you are as follows.

### **Growth**

The primary goal of the Growth investment program is to maximize long-term performance while experiencing the likelihood of greater short-term volatility, i.e. risk. Your objectives are managed for total investment return with a greater importance attached to capital appreciation and relatively little focus on current income. Because this program includes more aggressive management, you should be willing to tolerate greater short-term volatility and the possibility of larger losses in return for possible greater expected gains. Your time horizon should be long-term, typically greater than ten years.

### **Balanced**

The primary goal of the balanced investment program is to achieve equilibrium between capital appreciation and income; thus, more emphasis will be placed on income. The equity portion of the portfolio will be utilized for the purpose of generating capital appreciation in excess of inflation. Although your risk tolerance is lower and you can expect less volatility in this program than in the growth program, you should still expect volatility and varying investment performance. Your time horizon should be medium-to-long term but generally not less than three years.

### **Conservative**

This is the most conservative program available at ACAM. The primary goal of the Conservative investment program is to generate current income while preserving principal. Investment in the Conservative program consists of lower risk but also lower return. Typically your risk tolerance will only allow for infrequent and minimal losses associated. Because of the possibility of lower volatility than the Growth or Balanced programs, your time horizon in this program is generally short-to-medium term, though this program can accommodate you if you have a longer time horizon.

## **3. Turnkey Asset Management Program**

We offer a turnkey asset management program (“TAMP”) using the Family Wealth™ platform (“Platform”) developed by our affiliated entity, Austin Capital Trust Company, LLC. A turnkey asset management platform helps Advisors deliver customized solutions, be they advisor–managed or third-party, including strategists and separate account managers. A one-stop Platform makes it easy to execute, manage and track client portfolios with:

- Professional, private-labeled website plus proposals and quarterly performance reports branded with your firm and personalized for your clients
- Private-labeled proposal generator
- Advisor as manager including model level management



- Innovative time-savers, including an online proposal generator and pre-populated paperwork
- Dynamic, private-labeled performance reporting

Through this Platform we provide the following areas of expertise and the ability for investment advisors to use in delivering world class services to their clients:

- Client management: CRM technologies, client profiling and asset allocation review;
- Investment management: Research, rebalancing, trade order and portfolio management
- Performance monitoring: Data aggregation, reconciliation, performance reporting
- Operational support: Back office support, billing, compliance tools, websites and consultants
- Advisory Services Offered

The Platform generally includes:

- Access to multiple institutional assets allocation strategists (“Institutional Strategists”)
- Model portfolios designed to cover a number of standard risk/return assumptions
- Access to software including tools for set---up of client accounts, client proposals, investment policy statements, client agreements and the ability to view and manage client data
- Research, timely information and recommendations regarding the qualifications, investment philosophies, policies and performance of the Institutional
- Preparation of periodic performance measurement reporting regarding Advisor’s clients’ assets invested through the Platform

ACAM provides certain services to the client accounts that are opened through the Platform. These services generally include:

- Exercising discretion on whether, how and when to implement transactions in a client’s account based on the model(s) selected by Advisor and client
- Arranging for the execution of trades in clients’ accounts (with the exception of accounts invested in Separately Managed Account Portfolios (SMA’s))

The Client’s Advisors are generally responsible for:

- Ensuring client suitability and determining client investment objectives and goals, both initially and ongoing
- Selecting and changing the individual securities or model portfolio(s) in clients’ account that we make available through the Platform in accordance with such objectives and goals

Clients should carefully review the executed investment management agreement with their Advisor as well as the Advisor’s own Form ADV Brochure if applicable. The Advisor is responsible for delivering these items to each client.

## **Platform Models**

The Platform provides access to portfolio management services using the model asset allocations which are managed by our affiliated entity, Austin Capital Trust Company, LLC through their platform, Family Wealth™. Austin Capital Trust Company, LLC is responsible for constructing and maintaining the asset class and sector allocations for the Models, subject to the oversight and review of the Investment Committee. Austin Capital Trust Company, LLC evaluates and selects the investments, including target allocation and cash levels as determined by the Portfolio's investment guidelines. ACAM offers access to the Family Wealth™ to Advisors and their clients.

These Models offer investment opportunities for particular asset allocation strategies. It may be invested in a range of market sectors and/or asset classes (e.g., large cap, small/med cap, international or high yield income) represented by any number of underlying funds (typically at least five at any given time).

It is anticipated that any given time, the underlying funds in which the Model invests may fall anywhere on the entire spectrum of asset classes and sectors currently available. Furthermore, Austin Capital Trust Company, LLC is not constrained by any particular investment style. For example, at any given time, an underlying equity fund in which the Models invest may buy "growth" or "value" stocks, or some combination of both. ACAM reviews and re-balances the underlying funds in which the Model invests as necessary to reflect its current analysis of the approximate mix of assets among and within asset classes and sectors.

Austin Capital Trust Company, LLC monitors the specific investment objective and strategy with the goal of predictable and reliable investment results. As a means to pursue its investment objective, the Models intend to remain fully invested in shares of underlying investment companies at all times. The Models may, however, pursue an investment strategy of investing its assets directly in securities in lieu of indirect investment through other investment companies. The Model's direct investment will remain consistent with its asset allocation strategy and will typically be close or identical to those securities held by one or more of the underlying funds in which the Models currently invest. In addition, under adverse market or other conditions, the Models may adopt a temporary defensive position and invest a portion of its assets in cash or similar investments.

These models may be appropriate for Advisors and clients that do not have the time or the experience to choose from a list of funds and create their own portfolios that offers a single investment option blended with stocks, bonds, and short term investments. Choosing a managed portfolio can provide an easy solution to clients who want the convenience of professional management including asset rebalancing and professional oversight.

## **Separate Managed Accounts and Advisor-Directed Unified Managed Accounts**

ACAM also provides fee-based asset management through Separate Managed Accounts (SMA) and Advisor-Directed Unified Managed Accounts (UMA).

In the SMA program the client or Advisor is offered access to an actively managed portfolio where a variety of different asset managers can be selected. In a separately managed account, the portfolio of individually owned securities can be tailored to fit the Client's investing needs. ACAM may assist the Advisor in selecting appropriate investment vehicles or the Advisor may select them themselves.

In UMA accounts, clients can enjoy the benefits of separate account management, with the added convenience of consolidating assets into a single account. An UMA combines multiple separate account managers, along with mutual funds or ETFs, into one account structure. The Client's Advisor, using the Platform tools, customizes the asset allocation models to fit the individual Client's needs or selects one of the Platform's existing asset allocation models already on the Platform. The Advisor then determines the actual securities to include in the account. ACAM may provide overlay management services and implement trade orders based on the directions of the investment strategies contained in the UMA portfolio.

### **Third Party Models**

Some of the asset managers available on the Platform are accessed through the use of Third Party Models where an asset manager constructs an asset allocation and selects the investments for each portfolio model. ACAM may provide overlay management by implementing trade orders and periodically updating and rebalancing the models per the direction of the third party manager. Third Party Models are subject to change and may not always be available on the Platform.

### **Solicitors**

For clients referred to ACAM by a solicitor, the client will enter into an investment management agreement directly with ACAM and ACAM will be the Advisor. For these clients, ACAM will provide the services outlined above as the Platform provider and will provide investment advisory services, which include, but are not limited to:

- determining suitability of the Platform and the model portfolio selected by the client
- exercising discretion regarding whether, how and when to implement transactions in a client's account based on the model(s) selected by the client
- arranging for the execution of trades in clients' accounts (with the exception of accounts invested in SMA's, as described further above)
- The complete services provided by ACAM as the Advisor will be fully outlined in the agreement executed between ACAM and the client

Depending on the type of arrangement made between ACAM and the solicitor, the solicitor may assist the client in completing Platform account applications and other applicable forms and submit them to ACAMs. The solicitor may also obtain information from the client regarding the client's investment objectives and financial situation and may assist the client in determining a suitable model portfolio(s) based on such objectives and financial information. The client is ultimately responsible for making the final selection of the model portfolio(s). The client is further responsible for promptly notifying ACAM in writing of any change in the client's investment objectives, financial situation, and/or the selection of model portfolio(s).

For clients referred by a solicitor, ACAM reserves the right to not accept and/or terminate the account, if ACAM believes at any time, based on information provided by the client that the model portfolio selected by the client is not suitable and the client's decision is to not change the selection.

## **Wrap Fee Program**

ACAM also offers the Platform program as a “wrap fee program” to Advisors and their Clients. The program is managed in the same manner as outlined in this brochure and receives fees as described in the Appendix 1 of the Form ADV Part 2A brochure.

## **Item 5 - Fees and Compensation**

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We provide our services for a fee. Our fees do not include brokerage commissions, transaction fees, and other related costs and expenses. You may incur certain charges imposed by custodians, third party investment companies and other third parties. These include fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds, money market funds and exchange traded funds also charge internal management fees, which are disclosed in the fund’s prospectus. These fees may include, but are not limited to, a management fee, upfront sales charges, and other fund expenses. We do not receive any compensation from these fees. All of these fees are in addition to the management fee you pay us. You should review all fees charged to fully understand the total amount of fees you will pay. Services similar to those offered by us may be available elsewhere for more or less than the amounts we charge.

You could invest in a mutual fund directly, without our services. In that case, you would not receive the services provided by us which are designed, among other things, to assist you in determining which mutual fund or funds are most appropriate to your financial condition and objectives.

Our Client Service Agreement defines what fees are charged and their frequency. We usually bill fees in arrears on a quarterly basis. When the account is opened, the management fee is billed for the remainder of the current billing period and is based upon your initial investment. Thereafter, quarterly fees are based upon the account asset value on the last business day of the previous calendar quarter and are due the following business day. You may authorize the custodian to directly debit fees from your account held at the custodian and to pay us. Management fees are prorated for each contribution and withdrawal made during the applicable calendar quarter (with the exception of small inconsequential contributions and withdrawals). You will be provided with a quarterly statement reflecting deduction of the advisory fees.

Your agreement with us may be terminated by either party at any time upon written notice pursuant to the provisions of your Agreement. There is no penalty for terminating your account and agreement.

Upon termination, you will receive a refund for the portion of the prepaid management fee which is not earned. Any fees that are due, but have not been paid, will be billed to you and are due immediately.

### **1. Asset Management Fee Schedule**

We generally impose a minimum dollar amount of \$500,000 of assets for Institutional accounts, however smaller accounts may be accepted. The fee charged is based upon the amount of money you invest. No increase in the annual fee shall be effective without prior written notification to you. We believe our advisory fee is reasonable considering the fees charged by other investment advisers offering similar services/programs.

Payments are due and will be assessed on the last day of each quarter, based on the ending balance of the account under management for the preceding quarter and are calculated according to the following Retail and Institutional schedules.

### **Retail Schedule**

Fees for Retail client accounts are as follows for each Investment Program:

#### **Growth Fee Schedule**

Percentage	Portfolio Size (AUM)
1.50%	Under \$100,000
1.00%	\$100,000 - \$500,000
0.80%	\$500,000 - \$1,000,000
0.70%	\$1,000,000 - \$5,000,000
0.60%	\$5,000,000 - \$10,000,000
0.50%	Over \$10,000,000

#### **Balanced Fee Schedule**

Percentage	Portfolio Size (AUM)
1.00%	Under \$500,000
0.85%	\$500,000 - \$1,000,000
0.70%	\$1,000,000 - \$2,000,000
0.60%	\$2,000,000 - \$5,000,000
0.55%	\$5,000,000 - \$10,000,000
0.45%	\$10,000,000 - \$50,000,000
0.35%	Over \$50,000,000

#### **Conservative Fee Schedule**

Percentage	Portfolio Size (AUM)
0.50%	under \$1,000,000
0.40%	\$1,000,000 - \$2,000,000
0.30%	\$2,000,000 - \$10,000,000
0.25%	Over \$10,000,000

In certain circumstances, advisory fees and account minimums may be negotiable based upon prior relationships as well as related account holdings. In no event shall we charge advisory fees that are both in excess of six hundred dollars and more than six months in advance of advisory services rendered.

Certain strategies offered by us involve investment in mutual funds. Load and no load mutual funds may pay annual distribution charges, sometimes referred to as “12(b) (1) fees”. These 12(b) (1) fees come from fund assets, and thus indirectly clients’ assets. We do not receive any compensation from these fees. The 12(b) (1) fee, deferred sales charges and other fee arrangements will be disclosed upon your request and are typically described in the applicable fund’s prospectus.

Your account at the custodian may also be charged for certain additional assets managed for you by us but not held by the Custodian (i.e. variable annuities, mutual funds, 401(k) s).

The fees we charge can be deducted directly from your account at the custodian. We will instruct the Custodian to deduct the fees from your account at the end of the calendar quarter.

If you do not want us to charge your account for the quarterly fee, you may pay the quarterly fee directly to us. We will send you an invoice detailing the fee calculation. Fees are due in full upon receipt of the invoice.

Either party may terminate the agreement at any time by providing written notice to the other party. There is no penalty for terminating your agreement and account. Upon termination, you will receive a refund for the portion of the prepaid management fee which is not earned.

## **Institutional Schedule**

Fees for Institutional client accounts are as follows for each Investment Program:

### **Equity Fee Schedule**

Percentage	Portfolio Size (AUM)
0.80%	\$500,000 - \$1,000,000
0.70%	\$1,000,000 - \$2,000,000
0.65%	\$2,000,000 - \$5,000,000
0.60%	\$5,000,000 - \$10,000,000
0.50%	\$10,000,000 - \$50,000,000
0.40%	Over \$50,000,000

### **Balanced Fee Schedule**

Percentage	Portfolio Size (AUM)
0.85%	\$500,000 - \$1,000,000
0.70%	\$1,000,000 - \$2,000,000
0.60%	\$2,000,000 - \$5,000,000
0.55%	\$5,000,000 - \$10,000,000
0.45%	\$10,000,000 - \$50,000,000
0.35%	Over \$50,000,000

### Fixed Income Fee Schedule

Percentage	Portfolio Size (AUM)
0.50%	\$500,000 - \$1,000,000
0.40%	\$1,000,000 - \$2,000,000
0.30%	\$2,000,000 - \$10,000,000
0.25%	\$10,000,000 - \$50,000,000
0.20%	Over \$50,000,000

## 2. Turnkey Asset Management Program

### TAMP Fee

Ultimately, there are two sets of fees paid as part of our TAMP program: fees specific to the Advisor and fees specific to the TAMP Advisors end client. ACAM is paid a portion of the TAMP Advisors fee charged to the end client at a rate of 0.40% annually based on the value of the assets contained in the account along with \$100 annually for each client account maintained. There is a \$1,000 per user software and maintenance fee for each employee if a TAMP Advisor uses our services. For purposes of determining value, securities and other instruments traded on a market for which actual transaction prices are publicly reported are valued at the last reported sale price on the principal market in which they are traded. These fees may be negotiable and are set forth in the agreement between ACAM and the TAMP Advisor. In total, the fee charged to our TAMP end client does not exceed the fee a client would pay if it worked directly with ACAM. This fee is paid quarterly, in arrears or arrears as designated in the agreement.

ACAM receives permission in writing from every end client to withdraw our fees directly from the clients account. Advisory fees will be detailed on the custodian's statement that is sent to the client. The fee shown to the client is the total fee charged for all Advisor services provided, including ACAM and the TAMP Advisor.

### Platform Services

Austin Capital Trust Company charges an annual Platform Fee for the services provided which includes a technology charge. These charges are passed on to the end Client. This Platform Fee is based on a percentage of the market value of the portfolio. The maximum annual Base Platform Fee is 0.50%. Some clients may be paying a lower Platform fee depending on certain factors including what the Platform Fee was when their account opened or when their Advisor began doing business with the firm. In addition, Austin Capital Trust Company will charge an annual Separate Account Manager fee to cover the cost of the services provided by certain Strategists and Separate Account Managers (SMA's) if any. Such fees will range from 0.10% to 0.65%, depending upon the Strategist and/or Separate Account Manager selected. This fee may be negotiable for family relationships with accounts in excess of \$5 million.

ACAM' Platform Fees are payable quarterly in arrears at the beginning of each calendar quarter. We generally charge the fee based on the market value of the client's portfolio as of the last day of the prior calendar quarter. The formula used for the Platform and Advisor Fee calculation generally is as follows:  $(\text{Annual Rate}) \times (\text{Total Assets Under Management at Quarter---End}) / 365$  (X the number of days in the subsequent quarter). ACAM may aggregate client account balances that have family relationships with each other for purposes of calculating the Platform and Advisor Fees applicable to each client.

At the time in which a Client account is first opened and funded and any time an additional deposit of \$10,000 or more is received, the initial Platform Fees shall be calculated based on the value of the deposit, prorated for the number of days remaining in the quarter. This initial fee will be charged at the end of each month.

In the event that a client account is terminated during a calendar quarter or any time a withdrawal of \$10,000 or more is taken from an account, ACAM will compute the unearned Platform fees, prorated for the number of days remaining in the quarter.

Each calendar quarter, and each calendar month for new client accounts and accounts with deposits of \$10,000 or more, ACAM instructs the custodian to automatically withdraw the Platform Fee from the client's account held by the independent custodian. Typically, the custodian withdraws advisory fees from the client's account during the first several weeks after the quarterly or monthly billing period based on ACAM's instruction. All clients will receive statements from the custodian no less frequently than quarterly. The custodian statement will show the deduction of the advisory fee. It is the client's responsibility to verify the accuracy of the fee calculation. The custodian will not determine whether the fee is properly calculated.

ACAM reserves the right to change its Platform Fees at any time. ACAM may negotiate with any Advisor different Platform Fees and different fee terms than those described above. For example, ACAM may negotiate lower Platform fees based on the total amount of assets placed under management by the Advisor.

### **Solicitor Fees**

For accounts referred by a solicitor in which ACAM performs services as the Advisor and the Platform provider, ACAM will charge a maximum Investment Advisory Fees of 2.25%. This fee will be negotiable for family relationships with accounts in excess of \$5 million.

These fees are inclusive of the Platform Fee charged by ACAM for their services as the Platform provider and fees for the solicitor. As with the Platform fee above, fees for the Strategist and Separate Account Manager will be added to the fees above.

### **Investment Manager Services**

Under this service, ACAM will not compute fees or deduct fees for our services from client's custodian accounts. The third-party platform administrator will handle collection of client fees and will pay ACAM an annual fee based on the market values of the accounts participating in the service. We receive a portion of the advisory fee that clients pay to their independent investment advisor. Generally, ACAM charges an annual fee between 0.40% - 0.50% based on the total assets under management. This fee is ACAM's fee for our services and is not the total advisory fee the client pays their independent investment advisor. The fees that the client pays their independent investment advisors are established and payable in accordance with the terms outlined in the independent investment advisors' agreement, brochure or other equivalent disclosure document.



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

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We do not charge any performance-based fees. These are fees based on a share of capital gains on or capital appreciation of the assets of a client.

## **Item 7 - Types of Client(s)**

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We provide portfolio management services to individuals, high net worth individuals, trusts, estates, corporate pension and profit-sharing plans, charitable organizations, foundations, endowments, corporations, small business owners and churches. The services are generally made available through ACAM for each client's Advisor and in some circumstances directly to the client themselves. We require an initial minimum account size opening balance of \$100,000.

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

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We use a variety of analyses and strategies including Fundamental, Charting and Technical and Cyclical analyses to manage your portfolios and provide investment advice to you. We may also blend traditional and non-traditional asset classes as part of our overall risk management strategies.

We also provide Advisors with a variety of portfolio construction methods to help them create models appropriate for their Clients. In assisting the Advisor with asset allocation and portfolio construction, ACAM uses demographic and financial information provided by the Advisor and his/her Client to determine the risk profile and investment objectives.

### **1. Fundamental Analysis**

Fundamental analysis is a technique that attempts to determine a security's value by focusing on the underlying factors that affect a company's actual business and its future prospects. Fundamental analysis is about using real data to evaluate a security's value. It refers to the analysis of the economic well-being of a financial entity as opposed to only its price movements.

Fundamental analysis serves to answer questions, such as:

- Is the company's revenue growing?
- Is it actually making a profit?
- Is it in a strong-enough position to beat out its competitors in the future?
- Is it able to repay its debts?
- Is management focused on increasing shareholder value?

One of the primary assumptions of fundamental analysis is that the price on the stock market does not fully reflect a stock's "real" value. We use a combination of qualitative and quantitative factors to try and find stocks that are undervalued. We look at both macroeconomic factors such as the overall economy and industry conditions and company-specific factors such as financial condition and management. When we are examining a stock, we might look at the stock's annual dividend payout, earnings per share, Price

to Earnings ratio and many other quantitative factors. However, no analysis is complete without taking into account brand recognition and other qualitative factors.

The end goal of performing fundamental analysis is to produce a value that we can compare with the security's current price, with the aim of figuring out what sort of position to take with that security (underpriced = buy, overpriced = sell or short).

Once we discover undervalued funds, funds that are investing in undervalued stocks; we look at the company offering these funds to determine stability and volatility of the funds.

## **2. Modern Portfolio Theory**

We may also use Modern Portfolio Theory to help select the securities in our investment programs and portfolios. Modern portfolio theory tries to understand the market as a whole, rather than looking for what makes each investment opportunity unique. Investments are described statistically, in terms of their expected long-term return rate and their expected short-term volatility. The volatility is equated with "risk", measuring how much worse than average an investment's bad years are likely to be. The end goal is to identify your acceptable level of risk tolerance, and then to find a portfolio with the maximum expected return for that level of risk

## **3. Cyclical Analysis**

While we do not attempt to time the market, we may use cyclical analysis in conjunction with other strategies to help determine if shifts are required in your investment strategies depending upon long and short-term trends in financial markets and the performance of the overall national and global economy.

## **4. Technical Analysis**

Technical Analysis is a technique that attempts to determine a security's value by developing models and trading rules based upon price and volume transformation. Technical analysis assumes that a market's price reflects all relevant information so the analysis focuses on the history of a security's trading behavior rather than external drivers such as economic, fundamental and news events. The practice of technical analysis incorporates the importance of understanding how market participants perceive and act upon relevant information rather than focusing on the information itself. Ultimately, technical analysts develop trading models and rules by evaluating factors such as market trends, market participant behaviors, supply and demand and pricing patterns and correlations.

As with other types of analysis, the predictive nature of technical analysis can vary greatly; models and rules are often modified and updated as new patterns and behaviors develop. Past performance is not an indicator of future return.

## **5. Targeted Asset Allocation**

We combine analyses to determine asset allocation strategies in our resultant investment programs. Three targeted asset allocation model portfolios covering everything from Conservative to Growth oriented approaches have been compiled by us. We will advise you and you will choose which program or combination of programs most appropriate suits your goals and time horizon, while addressing the level of risk you are comfortable assuming. The strategic model portfolio allocation in our programs remains constant; your specific portfolio model may change infrequently to reflect shifts in your risk tolerance and goals. We screen and select funds and securities to be added to or removed from the model

portfolio, which can be done on a regular basis. Rebalancing can occur after shifts in the market, changes in your financial circumstances, according to your specific requests and after significant deposits or withdrawals to and from your accounts. The timing and nature of rebalancing are dictated by your specific investment objectives and financial situation in consultation with us.

In order to perform this analysis, we use many resources, such as:

- Morningstar
- Financial newspapers and magazines (e.g. Wall Street Journal, Forbes, etc.)
- Annual reports, prospectuses, filings with the Securities and Exchange Commission
- Research materials prepared by others
- Company press releases
- Corporate rating services
- Company websites
- Inspections of corporate activities

## **6. Investment Strategies**

The investment strategies we use to implement any investment advice given to you include, but are not limited to:

- Long term purchases -securities held at least a year
- Short term purchases - securities sold within a year
- Trading -securities sold within 30 days

ACAM provides Advisors with access to many investment strategies and Funds. Advisors can use the Platform to access portfolios historically, across multiple programs, custodians to allow the Advisor to assess the Client's needs.

## **7. Risks**

We cannot guarantee our analysis methods will yield a return. In fact, a loss of principle is always a risk. Investing in securities involves a risk of loss that you should be prepared to handle. You need to understand that investment decisions made for your account by us are subject to various market, currency, economic, political and business risks. The investment decisions we make for you will not always be profitable nor can we guarantee any level of performance. For a more comprehensive description of all the risks associated with our strategies, methodology, and products please refer to the glossary under Risks.

## **Item 9 - Disciplinary Information**

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Registered Investment Advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management. We have no information to disclose here about the firm or any of our investment advisors. We adhere to high ethical standards for all advisors and associates. We strive to do what's in your best interests.

## Item 10 - Other Financial Industry Activities and Affiliations

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### 1. Trust Company

ACAM is wholly owned by Austin Capital Corporate Holdings, LLC. Austin Capital Trust Company, LLC is affiliated with Austin Capital Asset Management, LLC. Austin Capital Trust Company, LLC is a professional financial services firm assisting institutional and individual clients with their investment management, trust and estate service's needs.

These affiliations may create certain conflicts of interest because both the investment adviser representative and Austin Capital Asset Management, LLC may have an incentive to recommend Austin Capital Trust Company, LLC for specialized trust and estate services, in which case both Austin Capital Asset Management, LLC and the investment adviser representative would receive separate compensation. If we were to recommend this affiliated firm to Clients for separate services, we will first disclose the affiliation and advise Clients that they are free to seek similar services from any investment management firm they wish.

### 2. Technology Tools

ACAM offers access to the Platform for Advisors, broker-dealers and other institutions which include web-based asset management software.

### 3. Advisor Directed UMAs

ACAM offers access to the Platform for Advisors to create their own investment models for their Clients. ACAM only provides administrative services for these accounts and is not responsible for investment selections made by the Advisor.

### 4. Reporting Services

ACAM also provides reporting services to allow Advisors the ability to monitor Client accounts. Performance reporting is calculated according to industry standards.

### 5. Back Office Services

ACAM provides access to back office services including billing, account reconciliation and implementing trades.

## Item 11 - Code of Ethics

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### 1. General Information

We have adopted a Code of Ethics for all supervised persons of the firm describing its high standards of business conduct, and fiduciary duty to you, our client. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts, the reporting of certain gifts and business entertainment items, and personal securities trading procedures. All of our supervised persons must acknowledge the terms of the Code of Ethics annually, or as amended.

We may recommend securities to you that we have purchased for our own accounts. We may trade securities in our account that we have recommended to you as long as we place our orders after your orders. This policy is meant to prevent us from benefiting as a result of transactions placed on behalf of advisory accounts.

We have established the following insider trading restrictions in order to ensure our fiduciary responsibilities to you are met:

- We shall not buy or sell securities for our personal portfolio(s) where this decision is substantially derived, in whole or in part, from our role as an Investment Advisory Representative of ACAM, unless the information is also available to the investing public on reasonable inquiry. In no case, shall we put our own interests ahead of yours.
- We emphasize your unrestricted right to decline to implement any advice rendered.

In addition, open-end mutual funds and/or investment sub-accounts which may comprise a variable insurance product are purchased or redeemed at a fixed net asset value. Therefore, purchases of mutual funds and/or variable insurance products by an advisor are not likely to have an impact on the prices of the fund in which you invest. These types of transactions are not prohibited by our policies and procedures.

Certain affiliated accounts may trade in the same securities with your accounts on an aggregated basis when consistent with our obligation of best execution. When trades are aggregated, all parties will share the costs in proportion to their investment. We will retain records of the trade order (specifying each participating account) and its allocation. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

You may request a copy of the firm's Code of Ethics by contacting Charles Ponicki, Vice President.

## **2. Privacy Statement**

We are committed to safeguarding your confidential information and hold all personal information provided to it in the strictest confidence. These records include all personal information that we collect from you or receive from other firms in connection with any of the financial services they provide. We also require other firms with whom we deal with to restrict the use of your information. Our Privacy Policy is available upon request.

## **3. Prohibited Acts**

The following acts are prohibited:

- Employing any device, scheme or artifice to defraud
- Making any untrue statement of a material fact
- Omitting to state a material fact necessary in order to make a statement, in light of the circumstances under which it is made, not misleading
- Engaging in any fraudulent or deceitful act, practice or course of business
- Engaging in any manipulative practices

## **4. Conflicts of Interest**

We have a duty to disclose potential and actual conflicts of interest. We have a duty to report potential and actual conflicts of interest to management. Gifts (other than de minimis gifts, which are usually defined as having a value under \$100.00) should not be accepted from persons or entities doing business with us.

Our representatives may employ the same strategy for their personal investment account as they do for their own clients. However, they do not place their orders in a way to benefit from the purchase or sale of a security. We monitor the personal trading activity of certain of our employees to ensure compliance with the Code of Ethics. This trading activity is reviewed at least quarterly. Violations are reported to the Chief Compliance Officer and remedial action may be imposed ranging from verbal warning to termination of employment.

We act in a fiduciary capacity. If a conflict of interest arises between us and you, we shall make every effort to resolve the conflict in your favor. Conflicts of interest may also arise in the allocation of investment opportunities among the accounts that we advise. We will seek to allocate investment opportunities according to what we believe is appropriate for each account. We strive to do what is equitable and in the best interest of all the accounts we advise.

## **Item 12 - Brokerage Practices**

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### **1. Soft Dollars**

We do not receive any soft dollars from broker-dealers, custodians or third party money managers.

#### **Research**

As part of our agreement with the custodians we typically use, we may receive additional research and access to systems and processes that assist us in our investment research and analysis. These benefits may not be allocated equally among all of our clients or their accounts. We may also receive services which can include investment profiles, sales literature and advertising and other materials.

### **2. Brokerage for Client Referrals**

We do not receive any compensation or incentive for referring you to certain broker-dealers for brokerage trades.

### **3. Best Execution**

We will arrange for the execution of securities brokerage transactions for your account through Broker-Dealers that we reasonably believe will provide “best execution.” These transactions will typically take place through one of our approved broker-dealers/custodians. In seeking best execution, the determinative factor is not the lowest possible commission 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. Therefore, we will seek competitive commission rates, but we may not obtain the lowest possible commission rates for account transactions.

## 4. Directed Brokerage

By directing brokerage to one of our approved broker-dealers, you may pay higher fees or transaction costs than those obtainable by other broker-dealers. In most cases, we believe you are paying a discounted and reasonable rate. You may pay higher or lower fees if you select another broker-dealer. Generally, we will not negotiate lower rates below the rates established by the executing broker-dealer for this type of directed brokerage account, unless we believe that such rate is unfair or unreasonable for the size and type of transaction. These commissions are reasonable and customary.

Not all advisory firms require you to direct brokerage to a specific broker-dealer. You may direct us to execute your transactions and custody your assets at a specific firm. By directing us to a specific custodian or Broker-Dealer, we may not be able to obtain the most favorable costs or execution. You may pay higher fees or transaction costs. You may also lose any benefits that we have been able to obtain for our other clients such as volume discounts or block trades. You will have the sole responsibility for negotiating the commission rate and other transaction costs with the Broker-Dealer and/or custodian. While you may direct us to a Broker-Dealer and/or custodian for execution of your transactions, you agree that we will not be required to effect any transactions through that directed broker if we reasonably deem doing so may result in a breach of our duties as a fiduciary. By directing brokerage, a disparity may exist between the commissions borne by your account and the commissions borne by our other clients that do not direct brokerage.

## 6. Trading

ACAM may aggregate by Custodial Broker transactions for Platform clients in the same securities for the purpose of obtaining best execution, negotiating more favorable commission rates, or allocating equitably among clients the differences in prices and commission or other transaction costs that might not have been obtained had such orders been placed independently.

No advisory 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 Custodial Broker) for all transactions in that security on a given business day.

ACAM does not aggregate trades of our personnel with those of client accounts unless our personnel have personal accounts that are managed by ACAM through the Platform.

Trade in Third Party Managers will be allocated based on that manager's trade allocation procedures.

## Item 13 - Review of Accounts

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### 1. Reviews

The timing & nature of reviews for accounts are dictated by a variety of factors. Such factors include but are not limited to the following:

- Type of account relationship
- Contribution of withdrawals of cash from an account
- A determination to change the cash level of an account

- The allocation of a block of a particular security purchasing for or sold from
- A particular objective
- Your request for tax-loss selling
- Restrictions imposed by you to refrain from purchasing a particular security, or class of securities, for your accounts
- Your request for information regarding the performances or structure of an account
- The performance of an account
- Option maturity dates.

You may request more frequent reviews and may set thresholds for triggering events that would cause a review to take place. Generally, we will monitor for changes and shifts in the economy, changes to the management and structure of a mutual fund or company in which client assets are invested, and market shifts and corrections. You should notify us promptly of any changes to your financial goals, objectives or financial situation as such changes may require us to review your portfolio and make recommendations for changes.

Advisors are required to review accounts with Clients on an annual basis.

## **2. Reports**

The custodian will provide at least quarterly, statements that include the following:

- A valuation report showing cash, securities owned, total data, and other data
- A schedule of realized gains & losses, interest & dividends, and a performance report on the status of the account.

You will be provided with confirmations for each securities transaction executed in the account. You must notify us of any discrepancies in the account or any concerns you have about the account.

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

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We have a program under which account executives & other professionals, i.e. Certified Public Accountants (“CPAs”), attorneys, et al., that refer institutional or retail clients to us will receive a percentage of the management fees earned by us for managing those qualifying accounts.

We receive referral fees from other Advisors who use our Turnkey Asset Management Program offered through Austin Capital Trust Company, LLC. We are paid a portion of the total asset management fee charged to the Advisor’s clients.

This does present a conflict of interest since we will receive compensation from referral fees and compensation in the form of advisory consulting fees for providing advisory services. The Adviser will mitigate this conflict of interest by always putting the client first and doing what is in each client’s best interests. The Adviser will monitor all client accounts to verify that this fiduciary responsibility is being met.



ACAM may compensate Advisors or advisory firms for referring Clients to the Platform. We may pay this Advisor a referral fee in accordance with the requirements of Rule 206(4) of the Investment Advisers Act of 1940, and any corresponding state securities law requirements. These Clients will not incur any additional charge because of these referral fees. Advisory Clients will pay the normal fees as outlined in this document and the Agreement.

## **Item 15 - Custody**

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We do not have physical custody of any accounts. However, we may be considered to have custody if we have the ability to debit the client fees directly from their advisory account. We will use one of our approved custodians for all your accounts. You should receive at least quarterly statements from the custodian that holds and maintains your investment assets. We urge you to carefully review such statements and compare this official custodial record to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16 - Investment Discretion**

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We usually receive discretionary authority from you at the beginning of an advisory relationship to select the identity and amount of securities to be bought or sold. This information is described in the Advisory Agreement you sign with us. In all cases, however, this discretion is exercised in a manner consistent with your stated investment objectives for your account.

When selecting securities and determining amounts, we observe the investment policies, limitations and restrictions you have set. For registered investment companies, our authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Investment guidelines and restrictions must be provided to us in writing.

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

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As a matter of firm policy and practice, we do not have any authority to and do not vote proxies on behalf of advisory clients. You retain the responsibility for receiving and voting proxies for any and all securities maintained in your portfolios. We are authorized to instruct the Custodian to forward you copies of all proxies and shareholder communications relating to your account assets.

We shall not render any advice with respect to the voting of proxies solicited by, or with respect to, the issuers of any securities held in your advisory account. Furthermore, we shall not render any advice or take any action on behalf of you with respect to securities or any other investments held in your advisory account or the issuers of such securities or investments that become the subject of any legal proceedings, including bankruptcies or class-action suits relating to the securities held in the account. You retain the

right and obligation to take any action with respect to any legal proceedings, including bankruptcies and class-action suits relating to securities held in the account.

## **Item 18 - Financial Information**

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We are required to provide you with certain financial information or disclosures about our financial condition. We have no financial commitment that would impair our ability to meet any contractual and fiduciary commitments to you, our client. We have not been the subject of any bankruptcy proceedings.

# Glossary of Key Terms

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**Adviser** – Austin Capital Asset Management, LLC

**Advisor** – Your individual representative at Austin Capital Asset Management, LLC

**Asset Allocation**– The process of dividing investments among different kinds of assets, such as stocks, bonds, real estate and cash, to optimize the risk/reward tradeoff based on an individual's or institutions specific situation and goals. A key concept in financial planning and money management.

**Asset-class investment portfolios**–An asset class is a grouping of similar investments whose prices tend to move together. Asset classes can be defined on a very general level, such as stocks or on a more specific level, such as American silver producing companies. The concept of asset classes is important because one of the goals when building an investment portfolio is to use different asset classes which are not correlated with each other.

**Diversification** – a portfolio strategy designed to reduce exposure to risk by combining a variety of investments, such as stocks, bonds, and real estate, which are unlikely to all move in the same direction. The goal of diversification is to reduce the risk in a portfolio. Volatility is limited by the fact that not all asset classes or industries or individual companies move up and down in value at the same time or at the same rate. Diversification reduces both the upside and downside potential and allows for more consistent performance under a wide range of economic conditions.

**Exchange-Traded Funds** — A type of an investment company (either an open-end company or UIT) whose objective is to achieve the same return as a particular market index. ETFs differ from traditional open-end companies and UITs, because, pursuant to SEC exemptive orders, shares issued by ETFs trade on a secondary market and are only redeemable from the fund itself in very large blocks (blocks of 50,000 shares for example).

**Expense Ratio** — the fund's total annual operating expenses (including management fees, distribution (12b-1) fees, and other expenses) expressed as a percentage of average net assets.

**Fees**– a list of all fees associated with different products we offer are listed below:

1. **12b-1 Fees** — Fees paid by the fund out of fund assets to cover the costs of marketing and selling fund shares and sometimes to cover the costs of providing shareholder services. "Distribution fees" include fees to compensate brokers and others who sell fund shares and to pay for advertising, the printing and mailing of prospectuses to new investors, and the printing and mailing of sales literature. "Shareholder Service Fees" are fees paid to persons to respond to investor inquiries and provide investors with information about their investments.
2. **Account Fee**— A fee that some funds separately impose on investors for the maintenance of their accounts. For example, accounts below a specified dollar amount may have to pay an account fee.
3. **Distribution Fees** — Fees paid out of fund assets to cover expenses for marketing and selling fund shares, including advertising costs, compensation for brokers and others who sell fund shares, and payments for printing and mailing prospectuses to new investors and sales literature prospective investors. Sometimes referred to as "12b-1 fees."

4. **Management Fee** — fee paid out of fund assets to the fund's investment adviser or its affiliates for managing the fund's portfolio, any other management fee payable to the fund's investment adviser or its affiliates, and any administrative fee payable to the investment adviser that are not included in the "Other Expenses" category. A fund's management fee appears as a category under "Annual Fund Operating Expenses" in the Fee Table.
5. **Operating Expenses** — the costs a fund incurs in connection with running the fund, including management fees, distribution (12b-1) fees, and other expenses.
6. **Purchase Fee** — a shareholder fee that some funds charge when investors purchase mutual fund shares. Not the same as (and may be in addition to) a front-end load.
7. **Redemption Fee** — a shareholder fee that some funds charge when investors redeem (or sell) mutual fund shares. Redemption fees (which must be paid to the fund) are not the same as (and may be in addition to) a back-end load (which is typically paid to a broker). The SEC generally limits redemption fees to 2%.
8. **Sales Charge (or "Load")** — the amount that investors pay when they purchase (front-end load) or redeem (back-end load) shares in a mutual fund, similar to a commission. The SEC's rules do not limit the size of sales load a fund may charge, but FINRA rules state that mutual fund sales loads cannot exceed 8.5% and must be even lower depending on other fees and charges assessed.
9. **Shareholder Service Fees** — fees paid to persons to respond to investor inquiries and provide investors with information about their investments. See also "12b-1 fees."

**Index Fund** — describes a type of mutual fund or Unit Investment Trust (UIT) whose investment objective typically is to achieve the same return as a particular market index, such as the S&P 500 Composite Stock Price Index, the Russell 2000 Index, or the Wilshire 5000 Total Market Index.

**Investment Adviser** — generally, a person or entity who receives compensation for giving individually tailored advice to a specific person on investing in stocks, bonds, or mutual funds. Some investment advisers also manage portfolios of securities, including mutual funds.

**Investment Company** — a company (corporation, business trust, partnership, or limited liability company) that issues securities and is primarily engaged in the business of investing in securities. The three basic types of investment companies are mutual funds, closed-end funds, and unit investment trusts.

**Investment Goals**— objective or target, usually driven by specific future financial needs. Some common goals for an individual are: saving for a comfortable retirement, saving to send children to college, managing finances to enable a home purchase, minimizing taxes, and maximizing return on investments given a certain risk tolerance, and estate or trust planning.

**Investment Objectives**— The financial goal or goals of an investor. An investor may wish to maximize current income, maximize capital gains, or set a middle course of current income with some appreciation of capital. Defining investment objectives helps to determine the investments an individual should select.

**Margin**—borrowing money (usually using securities you already own as collateral) that is used to purchase securities

**Mutual Fund** — the common name for an open-end investment company. Like other types of investment companies, mutual funds pool money from many investors and invest the money in stocks, bonds, short-term money-market instruments, or other securities. Mutual funds issue redeemable shares that investors purchase directly from the fund (or through a broker for the fund) instead of purchasing from investors on a secondary market.

**NAV (Net Asset Value)** — the value of the fund's assets minus its liabilities. SEC rules require funds to calculate the NAV at least once daily. To calculate the NAV per share, simply subtract the fund's liabilities from its assets and then divide the result by the number of shares outstanding.

**No-load Fund** — a fund that does not charge any type of sales load. But not every type of shareholder fee is a "sales load," and a no-load fund may charge fees that are not sales loads. No-load funds also charge operating expenses.

**Open-End Company** — the legal name for a mutual fund. An open-end company is a type of Investment Company

**Option Contracts**—the right, but not the obligation, to buy (for a call option) or sell (for a put option) a specific amount of a given stock, commodity, currency, index, or debt, at a specified price (the strike price) during a specified period of time. For stock options, the amount is usually 100 shares. Each option contract has a buyer, called the holder, and a seller, known as the writer. If the option contract is exercised, the writer is responsible for fulfilling the terms of the contract by delivering the shares to the appropriate party. In the case of a security that cannot be delivered such as an index, the contract is settled in cash. For the holder, the potential loss is limited to the price paid to acquire the option. When an option is not exercised, it expires. No shares change hands and the money spent to purchase the option is lost. For the buyer, the upside is unlimited. Option contracts, like stocks, are therefore said to have an asymmetrical payoff pattern. For the writer, the potential loss is unlimited unless the contract is covered, meaning that the writer already owns the security underlying the option. Option contracts are most frequently as either leverage or protection. As leverage, options allow the holder to control equity in a limited capacity for a fraction of what the shares would cost. The difference can be invested elsewhere until the option is exercised. As protection, options can guard against price fluctuations in the near term because they provide the right acquire the underlying stock at a fixed price for a limited time. Risk is limited to the option premium (except when writing options for a security that is not already owned). However, the costs of trading options (including both commissions and the bid/ask spread) is higher on a percentage basis than trading the underlying stock. In addition, options are very complex and require a great deal of observation and maintenance

**Portfolio** — an individual's or entity's combined holdings of stocks, bonds, or other securities and assets.

**Profile** — summarizes key information about a mutual fund's costs, investment objectives, risks, and performance. Although every mutual fund has a prospectus, not every mutual fund has a profile.

**Prospectus** — describes the mutual fund to prospective investors. Every mutual fund has a prospectus. The prospectus contains information about the mutual fund's costs, investment objectives, risks, and performance. You can get a prospectus from the mutual fund company (through its website or by phone or mail). Your financial professional or broker can also provide you with a copy.

**Risks** —a list of all risks associated with the strategies, products and methodology we offer are listed below.

## 1. Fundamental Analysis Risk

Fundamental analysis, when used in isolation, has a number of risks:

- There are an infinite number of factors that can affect the earnings of a company, and its stock price, over time. These can include economic, political and social factors, in addition to the various company statistics.
- When using this method with mutual funds, the funds are composed of many companies and not all of them will be undervalued
- The data used may be at least six months out of date.
- It is difficult to give appropriate weightings to the factors.
- In the early 1970s and 1980s price/earnings multiples of 80 or 90 were considered acceptable by some for 'blue chip' stocks in the United States.
- In the 1980s in the United States some biotechnology stocks sold at '50 times sales'. The companies had no earnings and paid no dividend. The new yardstick to value these became 'products in the pipeline'. By the late 1980s most had lost three-quarters of their stock price.
- It assumes that the analyst is competent.
- A fundamental analyst assumes that other fundamental analysts will form the same view about the company and buy the stock, thus restoring its value and returning the trader or investor a capital gain. In practice, an undervalued company's stock price can stay at approximately the same level (or decline) for years.
- It ignores the influence of random events such as oil spills, product defects being exposed, and acts of God and so on.
- It assumes that there is no monopolistic power over markets.
- Even when fundamental analysis reveals an undervalued company, or a stock with high growth prospects, it does not tell us anything about the timing of the purchase of the stock. In other words, we may have discovered a grossly undervalued stock whose price has been falling for some time, and may well continue falling.

## 2. Mutual Funds Risk

Mutual funds can offer the advantages of diversification and professional management. But, as with other investment choices, investing in mutual funds involves risk and fees and taxes will diminish a fund's returns.

But mutual funds also have features that some clients might view as disadvantages, such as:

- **Costs despite Negative Returns** — Clients must pay sales charges, annual fees, and other expenses) regardless of how the fund performs. And, depending on the timing of their investment, clients may also have to pay taxes on any capital gains distribution they receive — even if the fund went on to perform poorly after they bought shares.
- **Lack of Control** — Investors typically cannot ascertain the exact make-up of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades.

- Price Uncertainty — with an individual stock, you can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling your advisor. You can also monitor how a stock's price changes from hour to hour. But with a mutual fund, the price you purchase or redeem shares for will typically depend on the fund's NAV, which the fund might not calculate until many hours after you've placed your order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

The following is a list of some general risks associated with investing in mutual funds.

- Country Risk - The possibility that political events (a war, national elections), financial problems (rising inflation, government default), or natural disasters (an earthquake, a poor harvest) will weaken a country's economy and cause investments in that country to decline.
- Currency Risk - The possibility that returns could be reduced for Americans investing in foreign securities because of a rise in the value of the U.S. dollar against foreign currencies. Also called exchange-rate risk.
- Income Risk - The possibility that a fixed-income fund's dividends will decline as a result of falling overall interest rates.
- Industry Risk - The possibility that a group of stocks in a single industry will decline in price due to developments in that industry.
- Inflation Risk - The possibility that increases in the cost of living will reduce or eliminate a fund's real inflation-adjusted returns.
- Manager Risk - The possibility that an actively managed mutual fund's investment adviser will fail to execute the fund's investment strategy effectively resulting in the failure of stated objectives.
- Market Risk - The possibility that stock fund or bond fund prices overall will decline over short or even extended periods. Stock and bond markets tend to move in cycles, with periods when prices rise and other periods when prices fall.
- Principal Risk - The possibility that an investment will go down in value, or "lose money," from the original or invested amount.

### 3. Bond Fund Risk

Bond funds generally have higher risks than money market funds, largely because they typically pursue strategies aimed at producing higher yields of the risks associated with bond funds include:

- Call Risk - The possibility that falling interest rates will cause a bond issuer to redeem—or call—its high-yielding bond before the bond's maturity date.
- Credit Risk — the possibility that companies or other issuers whose bonds are owned by the fund may fail to pay their debts (including the debt owed to holders of their bonds). Credit risk is less of a factor for bond funds that invest in insured bonds or U.S. Treasury bonds. By contrast, those that invest in the bonds of companies with poor credit ratings generally will be subject to higher risk.

- Interest Rate Risk — the risk that the market value of the bonds will go down when interest rates go up. Because of this, you can lose money in any bond fund, including those that invest only in insured bonds or Treasury bonds.
- Prepayment Risk — the chance that a bond will be paid off early. For example, if interest rates fall, a bond issuer may decide to pay off (or "retire") its debt and issue new bonds that pay a lower rate. When this happens, the fund may not be able to reinvest the proceeds in an investment with as high a return or yield.

#### 4. Stock Fund Risk

Although a stock fund's value can rise and fall quickly over the short term, historically stocks have performed better over the long term than other types of investments — including corporate bonds, government bonds, and treasury securities.

Overall "market risk" poses the greatest potential danger for investors in stocks funds. Stock prices can fluctuate for a broad range of reasons, such as the overall strength of the economy or demand for particular products or services.

Not all stock funds are the same. For example:

- Growth funds focus on stocks that may not pay a regular dividend but have the potential for large capital gains.
- Income funds invest in stocks that pay regular dividends.
- Index funds aim to achieve the same return as a particular market index, such as the S&P 500 Composite Stock Price Index, by investing in all — or perhaps a representative sample — of the companies included in an index.
- Sector funds may specialize in a particular industry segment, such as technology or consumer products stocks.

#### 5. Alternative Investment Risk

Investing in alternative investments is speculative, not suitable for all clients, and intended for experienced and sophisticated investors who are willing to bear the high economic risks of the investment, which can include:

- Loss of all or a substantial portion of the investment due to leveraging, short-selling or other speculative investment practices
- Lack of liquidity in that there may be no secondary market for the fund and none expected to develop
- Volatility of returns
- Restrictions on transferring interests in the fund
- Absence of information regarding valuations and pricing
- Delays in tax reporting
- Less regulation and higher fees than mutual funds

#### 6. Insurance Product Risk



The rate of return on variable insurance products is not stable, but varies with the stock, bond and money market subaccounts that you choose as investment options. There is no guarantee that you will earn any return on your investment and there is a risk that you will lose money. Before you consider purchasing a variable product, make sure you fully understand all of its terms. Carefully read the prospectus. Some of the major risks include:

- **Liquidity and Early Withdrawal Risk** – There may be a surrender charges for withdrawals within a specified period, which can be as long as six to eight years. Any withdrawals before a client reaches the age of 59 ½ are generally subject to a 10 percent income tax penalty in addition to any gain being taxed as ordinary income.
- **Sales and Surrender Charges** –Asset-based sales charges or surrender charges. These charges normally decline and eventually are eliminated the longer you hold your shares. For example, a surrender charge could start at 7 percent in the first year and decline by 1 percent per year until it reaches zero.
- **Fees and Expenses** – There are a variety of fees and expenses which can reach 2% and more such as:
  - Mortality and expense risk charges
  - Administrative fees
  - Underlying fund expenses
  - Charges for any special features or riders
- **Bonus Credits** – Some products offer bonus credits that can add a specified percentage to the amount invested ranging from 1 percent to 5 percent for each premium payment. Bonus credits, however, are usually not free. In order to fund them, insurance companies typically impose high mortality and expense charges and lengthy surrender charge periods.
- **Guarantees** - Insurance companies provide a number of specific guarantees. For example, they may guarantee a death benefit or an annuity payout option that can provide income for life. These guarantees are only as good as the insurance company that gives them.
- **Market Risk** -The possibility that stock fund or bond fund prices overall will decline over short or even extended periods. Stock and bond markets tend to move in cycles, with periods when prices rise and other periods when prices fall.
- **Principal Risk** -The possibility that an investment will go down in value, or "lose money," from the original or invested amount.

## 7. Overall Fund Risk

- Clients need to remember that past performance is no guarantee of future results. All funds carry some level of risk. You may lose some or all of the money you invest, including your principal, because the securities held by a fund goes up and down in value. Dividend or interest payments may also fluctuate, or stop completely, as market conditions change.
- Before you invest, be sure to read a fund's prospectus and shareholder reports to learn about its investment strategy and the potential risks. Funds with higher rates of return may take risks that are beyond your comfort level and are inconsistent with your financial goals.

- While past performance does not necessarily predict future returns, it can tell you how volatile (or stable) a fund has been over a period of time. Generally, the more volatile a fund, the higher the investment risk. If you'll need your money to meet a financial goal in the near-term, you probably can't afford the risk of investing in a fund with a volatile history because you will not have enough time to ride out any declines in the stock market.

#### 8. Technical Analysis risk

- Technical analysis is derived from the study of market participant behavior and its efficacy is a matter of controversy.
- Methods vary greatly and can be highly subjective; different technical analysts can sometimes make contradictory predictions from the same data.
- Models and rules can incur sufficiently high transaction costs.

**Risk Tolerance**— the extent to which an investor is willing to accept more risk in exchange for the possibility of a higher return. An investor with a high risk tolerance is likely to invest in securities, such as stocks in startup companies, and is willing to accept the possibility that the value of his/her portfolio will decline, at least in the short-term. An investor with a low risk tolerance, on the other hand, tends to invest predominantly in stable stocks and/or highly-graded bonds. One's risk tolerance is subjective and may vary according to age, needs, goals, and even personal dispositions

**Third Party Money Manager**—the professional management of various securities (shares, bonds and other securities) and assets (e.g., real estate), to meet specified investment goals for the benefit of the investors. The managers are not the actual advisers working with the investor. Investors may be institutions (insurance companies, pension funds, corporations, individuals etc.

**Total Annual Fund Operating Expense** — the total of a fund's annual fund operating expenses, expressed as a percentage of the fund's average net assets. You'll find the total in the fund's fee table in the prospectus.

**Unit Investment Trust (UIT)** — a type of investment company that typically makes a one-time "public offering" of only a specific, fixed number of units. A UIT will terminate and dissolve on a date established when the UIT is created (although some may terminate more than fifty years after they are created). UITs do not actively trade their investment portfolios.

**You** – the client