

# ANNUAL DISCLOSURE BROCHURE

## FORM ADV PART IIA

This Brochure provides information about the qualifications and business practices of True North Advisors (“True North”). If you have any questions about the contents of this Brochure, please contact True North at 214-360-7300. True North is a registered investment adviser under the United States Securities and Exchange Commission (“SEC”) Investment Advisers Act of 1940. The information in this Brochure has not been approved or verified by SEC or by any state securities authority. 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 about which you determine to hire or retain an Adviser.

Additional information about True North is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for True North Advisors is 116048.

### ITEM 2: MATERIAL CHANGES

True North has no material changes to report since our last Brochure dated March 30, 2017.

Currently, our Brochure may be requested by contacting Mark Gehlbach, Chief Compliance Officer at 214-360-7300 or [mgehlbach@truenorthadvisors.com](mailto:mgehlbach@truenorthadvisors.com). Our Brochure is also available on our website [www.truenorthadvisors.com](http://www.truenorthadvisors.com).

Additional information about True North is also available via the SEC’s website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s website also provides information about any persons affiliated with True North who are registered, or are required to be registered, as investment adviser representatives of True North Advisors.

[www.truenorthadvisors.com](http://www.truenorthadvisors.com)

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### ITEM 3: TABLE OF CONTENTS

Item 1: Cover Page .....	i
Item 2: Material Changes .....	i
Item 3: Table of Contents .....	ii
Item 4: Advisory Business .....	1
Item 5: Fees and Compensation .....	2
Item 6: Performance-Based Fees and Side-By-Side Management .....	3
Item 7: Types of Clients .....	3
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss.....	3
Item 9: Disciplinary Information .....	5
Item 10: Other Financial Industry Activities and Affiliations.....	5
Item 11: Code of Ethics.....	5
Item 12: Brokerage Practices .....	5
Item 13: Review of Accounts .....	7
Item 14: Client Referrals and Other Compensation .....	7
Item 15: Custody.....	7
Item 16: Investment Discretion .....	8
Item 17: Voting Client Securities.....	8
Item 18: Financial Information.....	8

#### ITEM 4: ADVISORY BUSINESS

In 2000, True North Advisors (“True North”) was born out of a shared vision of its two founders, Scott Wood and Mark Gehlbach, to deliver something better in the world of wealth management. Coming from traditional money management firms where advice was tied to the selling of products, they became convinced that advice can be provided with objectivity and transparency. As a result of this independence True North mitigates conflicts and operates in an environment without product constraints typically seen in the brokerage world.

True North’s clients engage the firm to offer comprehensive solutions, including financial planning and investment management. Services may include, but are not limited to, the following:

- Understanding the foundational details of a client’s total financial situation, identifying both short- and long-term goals, to achieve results for today and in the future.
- Retirement planning, education planning, estate planning, tax planning, budgetary assistance, legacy and philanthropic planning, and business consulting, etc.
- Developing a thorough capital income needs analysis showing the assets required to achieve the identified goals along with the probability of achieving those goals.
- Identifying risk and loss tolerance as guides for designing a investment portfolio with the recommended asset allocation strategy.
- Designing and modeling a portfolio acceptable with meeting the stated goals. If needed, tailoring individual accounts based on client specific objectives, financial situations and needs pursuant to an Investment Management Agreement, which may include certain investment restrictions imposed by the client.
- Assessing return on investments and restrictions on investing in certain securities or types of securities (if needed).

- Recommending investments from carefully researched managers and their product offerings. Implementing an investment strategy utilizing a variety of investible asset classes including “institutional” mutual fund shares, indexed exchange traded funds (“ETFs”), separately managed accounts (“SMAs”), individual securities and alternative and private investments, when appropriate. ETFs follow a specific benchmark index as closely as possible allowing the investor to get exposure to a large number of securities in a single transaction. A SMA is an account managed by an outside asset management firm (“manager”) along with an administrator while alternative investments include hedge or fund of funds, natural resources, real estate and private equity, which may be more illiquid in nature.
- Collaborating with other advisors on decisions that affect the overall wealth management plan, including estate planning attorneys, insurance agents, and tax advisors. True North does not provide legal or tax advice.
- Providing periodic and consistent monitoring and review of progress towards the achievement of goals and objectives.
- Delivering communication on both a scheduled and as needed basis to review the portfolio performance, and update True North’s records with new information that may require alterations in the portfolio construction.
- Providing ongoing counsel and advice on any and all financial decisions, as needed, such as a decision to buy or sell a business, invest in a project, vacation home purchase, etc.

True North offers consulting services including the review and evaluation of outside investments (e.g., self directed 401K account offered by an employer), and integration into the performance reporting system. True North may charge a fixed fee for consulting services.

As of December 31, 2017 the amount of client assets under management:

Discretionary:	\$ 1,145,676,378
Non-discretionary:	<u>\$63,583,474</u>

\$ 1,209,259,852

## ITEM 5: FEES AND COMPENSATION

### Advisory Fee

For its investment management services, True North charges a blended fee based on a percentage of the assets under True North's management. In some unique instances, a flat fee may be negotiated with a client depending on the services to be provided. For relationships established after March 28, 2013, True North's customary annual assets-under-management fee is as follows:

Assets	True North's Advisory Fee
First \$2,000,000	1.00% of assets under management
\$2,000,001 to \$3,000,000	0.90% of assets under management
\$3,000,001 to \$5,000,000	0.75% of assets under management
\$5,000,001 to \$10,000,000	0.60% of assets under management
\$10,000,001 to \$25,000,000	0.50% of assets under management
Over \$25,000,000	0.40% of assets under management

The advisory fee may vary from client to client.

Clients authorize the deduction of fees from an account maintained by the custodian unless alternative arrangements are approved. At the relationship onset, the fee is calculated proportionately with respect to the number of days remaining in the quarter and based on the market value of the portfolio as of the effective date of the Investment Management Agreement. The initial advisory fee is payable when the portfolio is established, prorated for the first partial quarter, if any. Thereafter, the advisory fee will be billed quarterly in

advance, on the first day of each calendar quarter based on the market value of the portfolio on the last business day of the preceding calendar quarter. True North also maintains a system to track client cash flows above a certain value threshold (currently \$50,000). Each quarter, client accounts are billed or credited an advisory fee based on the capital flow in or out of their account. Agreements may be terminated by giving thirty (30) days' written notice to True North, and clients will receive a pro-rata portion of the prepaid fee based on the days remaining in the applicable quarter.

Under certain circumstances, such as for clients who have multiple family members' portfolios under True North's management, True North may collectively apply the family members' assets to its fee schedule, resulting in a reduced assets-under-management fee. Therefore, the advisory fee may vary from client to client.

Additional fees or expenses clients may pay include:

### Manager Fee

True North clients with a separately managed account ("SMA") enter a wrap fee arrangement with the SMA administrator such as Envestnet Asset Management, Inc. ("Envestnet") or Charles Schwab & Co., Inc. ("Schwab"). Under this arrangement, one fee is collected to cover the platform fee and the manager fee. This fee is in addition to the True North advisory fee. Before entering this program, clients should consult the administrator's disclosure brochure, including Schedule H, for disclosure concerning the program and fee.

### Clearing Fee

A clearing fee is typically debited from the client's account directly by the custodian to facilitate trading and provide administrative reporting to the IRS. True North's advisory fee does not include any bank fees, margin interest, national securities exchange fees, wire transfer fees or other costs or fees associated with securities transactions.

### Fund Expenses

Clients' funds awaiting investment may be placed in a money market fund; True North's fee does not include any internal fee

or expense of any money market fund. Portfolios with funds invested in mutual funds will bear a proportionate share of the fund's fee and expenses. True North does not share in any portion of the transaction charges imposed by the custodian holding the client funds or securities.

#### **Consulting Fee**

If the True North and the client agree that True North is to provide more detailed consulting services to the client beyond the scope of services included in the Investment Management Agreement, True North may charge an additional consulting fee for the consulting service. The type and amount of any fee charged for consulting services is negotiable and is generally based on the complexity of the work involved. Any agreement for a separate fee will be contained in an additional agreement between the client and True North.

Additional information regarding consulting fees is contained in the Proposal, Investment Management Agreement and any supplemental consulting agreement between the client and True North. True North believes its fees are fair and justified, and that they are competitive with other providers of comparable services.

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

True North does not charge performance-based fees (fee based on a share of capital gains on or capital appreciation of the assets of a client). True North does not perform side-by-side management, such as managing hedge funds "side by side" with mutual funds.

#### **ITEM 7: TYPES OF CLIENTS**

True North provides services to individuals and high net worth individuals; corporate pension and profit-sharing plans; trusts, estates and charitable organizations including foundations and endowments, corporations and other business entities.

True North prefers to accept only portfolios containing at least \$1,000,000. Under certain circumstances, such as for

portfolios of existing clients' family members, True North may waive its preferred minimum portfolio size.

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

True North's investment philosophy has a fundamental bias and leans heavily towards value investing principles:

- True North invests with managers that are primarily driven by fundamental, bottom up security analysis. This implies due diligence begins with the individual security as opposed to the industry, sector, or geographical analysis.
- True North's portfolios have a bias to value-oriented investment strategies pioneered by investing legends such as Warren Buffett and Benjamin Graham. This results in a bias towards managers who identify with such investment principles.
- True North believes in active management but can and will allocate portions of the portfolio to passive investments such as indexed ETFs or indexed mutual funds when appropriate.
- True North believes in the value of alternative and private investment strategies that add correlation benefits to a portfolio of traditional equity and fixed income strategies. Correlation is a statistical measure of how two securities move in relation to each other.
- True North can and will seek out niche opportunistic strategies within both traditional and non-traditional asset classes and allocates to such investments around our core holdings.

Other than the occasional laddered bond strategy (if appropriate), True North typically does not employ any investment strategy "in house." This means that True North outsources the management of assets to third party managers when deemed appropriate. For example, if True North desires domestic large cap equity exposure, then True North may hire a manager or invest in an indexed exchange traded fund ("ETF"). This reduces the inherent conflict of interest that brokers face when their own "in house" strategies underperform their peers and/or the market. True North's

advice-driven consultative approach allows the firm to research, recommend and terminate managers and strategies based on their fundamental merits.

True North's methods of finding managers and investment ideas vary widely. Sources include third party research, existing manager relationships, database searches, networking with family offices and other investment advisors, clients and prospective clients. Furthermore, True North gains insight and ideas from reading macroeconomic research periodicals, news media and scores of investment letters from firms whose strategies span the investing universe.

True North uses additional research tools and methods for analysis including returns-based and holdings-based analysis software and general sources of news and information such as *Litman/Gregory* and *Pensions & Investments*.

True North's investment decision making process is centered around the Investment Policy Committee ("IPC"). At this time, the IPC has four voting members. This body is responsible for making allocation and manager selection decisions. The Investment Team may bring recommendations to the IPC or the IPC may direct the Investment Team to present a particular idea or manager type. In either case, due diligence efforts executed by the Investment Team are summarized for the IPC in a formal due diligence report. This report includes the following: investment strategies, philosophy, and process; firm profile, organizational structure, biographies and changes in key investment personnel; performance, risks, outstanding concerns and True North's expectations. Members of the Investment Team meet with managers (in person or via phone conference) throughout the year to keep updated on their strategies and activity related to the client portfolios.

Diversification is at the pinnacle of True North's investment philosophy. True North believes that asset allocation decisions are the largest contributor of risk and return in any given investment strategy. True North broadly divides assets amongst cash, equities, fixed income and alternative investments. True North uses a framework for portfolio management titled Functional Asset Classes ("FACs") to structure client portfolios. True North uses four FACs: Growth Allocation, Capital Preservation, Inflation Protection and Private Investments.

Asset allocation decisions are not solely dictated by the IPC, rather they are unique to each client. At the beginning of each client relationship, True North assesses the objectives of each client based (broadly) on their assets, liabilities and income goals. In this process True North utilizes a Monte Carlo analysis which is a modeling technique used to approximate the probability of certain outcomes by running multiple trial runs, called simulations, using random variables on several different allocation profiles.

The projected return on investment for the portfolio is based on broad historic index returns, risks and correlations. While this methodology is not perfect, a Monte Carlo simulation allows True North to view probabilities of success with thousands of simulations. Over long timeframes, True North believes this tool is a good source in helping select a individual clients' allocation. Two other factors play into the asset allocation decision. First, the clients' own preferences and/or risk tolerance. The second is the firm's own opinion based on the data and qualitative information gathered from a particular client. Combining these three factors, the Wealth Manager, the Investment Team, and the Portfolio Analyst determine the recommended asset allocation to present to a client.

True North does not guarantee the future performance of the portfolio or any specific level of performance in the portfolio, the success of any investment management firm that True North may select, or the success of True North's overall management of the portfolio. True North communicates to the client that the investment decisions and recommendations True North makes for the portfolio are subject to various market, currency, economic, political and business risks. The investment decisions made by True North and/or the money management firms that True North selects will not always be profitable. Investing in securities involves the risk of loss that clients should be prepared to bear.

## **ITEM 9: DISCIPLINARY INFORMATION**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to the evaluation of True North or the

integrity of True North's management. True North Advisors has no disciplinary information to disclose.

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

True North is independently owned and operated and is not affiliated with any of the following: broker-dealer, municipal securities dealer, or government securities dealer or broker; investment company or pooled investment vehicle (including a mutual fund, private investment company or hedge fund); other investment adviser or financial planner; futures commission merchant, commodity pool operator; banking or thrift institution; accountant or accounting firm; lawyer or law firm; insurance company or agent; pension consultant; real estate broker or dealer; sponsor or syndicator of limited partnerships.

#### **ITEM 11: CODE OF ETHICS**

True North has adopted a Code of Ethics ("CoE") for all employees describing its standard of business conduct and fiduciary duty to its clients. The CoE includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All employees of True North must acknowledge the terms of the CoE annually, or as amended.

Employees of True North and its affiliates may trade for their own portfolios in securities which are recommended to and/or purchased for True North's clients. The CoE is designed to assure that the personal securities transactions of the

employees of True North will not interfere with (i) making decisions in the best interest of advisory clients, and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own portfolios.

The CoE requires pre-clearance of certain transactions, such as a private placements (i.e. securities limited to a certain number of investors) and initial public offerings. Nonetheless, because the CoE in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. This in and of itself creates a potential conflict of interest. Employee trading is monitored to reasonably prevent conflicts of interest between True North and its clients.

True North's Code of Ethics is posted on our website at [www.truenorthadvisors.com](http://www.truenorthadvisors.com). The CoE is also available by request.

#### **ITEM 12: BROKERAGE PRACTICES**

True North does not maintain custody of client assets. Clients' assets are maintained in brokerage accounts at a "qualified custodian," generally a broker-dealer or bank. All clients will have the opportunity to select the custodian of their choice; however, clients will generally have Schwab Advisor Services ("Schwab") a FINRA-registered broker-dealer, member SIPC® recommended to them. However, because clients' needs vary, True North may recommend other custodians for clients and has done so in the past. While True North may recommend that clients use a particular custodian/broker, it is up to the client to decide what custodian/broker to use. Clients will open accounts by entering into an agreement directly with the custodian. Even though accounts are maintained at a custodian, True North can still use other brokers to execute trades for accounts as described below (see – *Brokerage and Custody Costs*).

##### **Products and Services Available to True North from Schwab**

Schwab serves independent investment advisory firms like True North. Schwab provides True North and its clients with access to its institutional brokerage - trading, custody, reporting, and related services - many of which are not typically available to Schwab retail customers. Schwab also makes available various support services which help True



North administer accounts, while others help True North manage and grow its business.

The availability of Schwab's services benefits True North because these services are free as long as True North's clients' collectively keep a total of at least \$10 million of their assets at Schwab. This minimum may give True North an incentive to recommend that clients maintain their portfolio with Schwab and is a potential conflict of interest. True North believes, however, that the selection of Schwab as custodian and broker is in the best interest of its clients. This decision is primarily supported by the scope, quality, and price of Schwab's services (see – *How True North Selects Brokers/Custodians*) and not Schwab's services that benefit only True North. As of December 31, 2017 True North had approximately \$924 million in client assets under management at Schwab and does not believe that recommending clients to collectively maintain at least \$10 million of those assets at Schwab in order to avoid paying Schwab quarterly services fees presents a material conflict of interest.

#### **How True North Selects Brokers/Custodians**

True North recommends a broker/custodian who will hold clients' assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. True North considers a wide range of factors, including, among others, these:

- Combination of transaction services along with custody services.
- Capability to execute, clear, and settle trades (i.e. buy and sell securities for clients' portfolios).
- Capability to facilitate transfers and payments to and from accounts such as wire transfers or check requests.
- Quality and competitiveness of the price of services (e.g., margin interest rates, fees) and willingness to negotiate the prices.
- Reputation, financial strength, and stability of the provider.
- Prior service to True North and our clients.

- Availability of other products and services that benefit True North (see – *Services That Benefit True North*).

#### **Brokerage and Clearing Costs**

For accounts held at Schwab, Schwab generally does not charge clients separately for custodial services. Schwab is compensated by charging commissions or other fees on trades it executes or charging a percentage of the dollar amount of assets in the account. Schwab's fee schedules applicable to True North client accounts were negotiated based on True North's commitment to maintain a determined value of clients' assets statements equity in accounts at Schwab. True North regularly reviews and negotiates Schwab's fee schedules.

Schwab also charges a flat dollar amount as a "prime broker" or "trade away" fee for each trade executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (i.e. settled) into a client's Schwab account. These fees are in addition to the other compensation paid to the executing broker-dealer. Because of this, in order to minimize trading costs, True North will have Schwab execute most trades for client portfolios. True North has determined that having Schwab execute most trades is consistent with its duty to seek "best execution" of trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see – *How True North Selects Brokers/Custodians*). Following is a more detailed description of Schwab's support services:

#### **Services That Benefit True North's Clients**

Schwab's services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which True North might not otherwise have access or that would require a higher minimum initial investment.

#### **Services That May Not Directly Benefit True North's Clients**

Schwab also makes available other products and services that benefit True North but may not directly benefit a client or a client's portfolio. These products and services assist True



North in managing and administering client portfolios. For example, Schwab makes available software and other technology that:

- Provides access to client portfolio data (such as duplicate trade confirmations and account statements).
- Facilitates trade execution and allocate aggregated trade orders for multiple client accounts.
- Provides pricing and other market data.
- Facilitates payment of advisory fees from True North's clients' accounts.
- Assists with back-office functions, record keeping, and client reporting.

#### **Services That Benefit True North**

Schwab also offers other services intended to help True North manage and further develop its business enterprise. Schwab may provide some of these services itself. In other cases, Schwab will arrange for third party vendors to provide the services. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide True North with other benefits, such as occasional business entertainment of True North personnel. Services include:

- Educational conferences and publications on practice management and business succession.
- Consulting on technology, compliance, legal, and business needs.

#### **ITEM 13: REVIEW OF ACCOUNTS**

A Wealth Manager is assigned to each portfolio and is responsible for monitoring and maintaining compliance with client-specific guidelines. Portfolios are reviewed by both the Wealth Manager and Portfolio Analyst on a regular basis depending on the complexity of the relationship. True North encourages its clients to meet with a representative of the firm on a regular basis, which may be as frequent as each quarter,

to review performance of the client's portfolio. More frequent informal reviews may be triggered by market conditions, news events, excess cash balances, or any other event True North deems significant. Clients are encouraged to contact True North whenever their financial situation changes (e.g., marriage, divorce, birth, death, change in employment) as this may trigger an adjustment to the portfolio construction.

True North issues periodic reports to clients regarding the asset allocation and the performance of the client's portfolio. In addition to True North's reports, clients receive confirmations for transactions and monthly statements from the custodians of their accounts. Custodians issue quarterly statements if no monthly account activity has taken place. Clients may opt to access portfolio information online from the custodian's website, if desired.

#### **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

Occasionally True North may send a thank you gift to an individual or company for a client referral.

True North receives an economic benefit from Schwab in the form of the support products and services it makes available to independent advisors whose clients maintain accounts at Schwab. The description of these products and services, how they benefit True North, and the related conflicts of interest are described above (see – *Brokerage Practices*). The availability to us of Schwab's products and services is not based on us giving particular investment advice, such as recommending particular securities for client portfolios.

#### **ITEM 15: CUSTODY**

True North does not have custody of any client funds or securities; a custodian maintains actual custody of True North's clients' assets. Clients receive statements at least quarterly directly from the custodian that holds and maintains their assets. Statements are sent to the email or postal address provided to the custodian by the client. True North urges clients to carefully review statements promptly and compare such official custodial records to the portfolio performance reports provided by True North. True North's reports may vary

from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. If significant discrepancies are found, clients should notify the custodian and the firm.

True North is considered to have custody of clients' funds or securities when clients have standing authorizations with their custodian to move money from a client's account to a third-party ("SLOA") in which True North may have some discretion in transferring the funds on behalf of the client. These SLOAs have been put in place upon the client's written request and signature. For instance, the amount or timing of the transfers may not be on the SLOA submitted to the custodian; however, at a future date, a client will contact True North requesting that the adviser submit instructions to the custodian to remit a specific dollar amount from the account to the designated third-party (both of which are identified in the SLOA that is on file). True North meets the seven conditions the SEC has set forth that are intended to protect client assets in such situations.

#### **ITEM 16: INVESTMENT DISCRETION**

Clients enter a written Investment Management Agreement with True North which describes the discretionary authority True North accepts to make all investment decisions regarding the portfolio and to make sales, purchases, and reinvestments necessarily to carry out the client's investment objectives. In the case of SMAs, True North has the ability to select, terminate or change managers.

For certain institutional clients, discretion is not completely unlimited. A written investment policy statement is developed describing how changes and transactions are recommended and agreed to prior to any changes made or trading initiated.

#### **ITEM 17: VOTING CLIENT SECURITIES**

True North's Investment Management Agreement provides that True North does not have any authority to and does not vote proxies on behalf of its clients. In the case of a SMA, True North delegates the voting of proxies to the respective manager hired; otherwise clients will receive information from the custodian and vote for securities held in the portfolio.

If the portfolio is for a pension plan or other employee benefit plan governed by the Employment Retirement Income Security Act, the client will designate in writing another fiduciary who will vote proxies for the portfolio.

#### **ITEM 18: FINANCIAL INFORMATION**

True North is required to provide certain financial information or disclosures about its financial condition. True North has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of any bankruptcy proceeding.