

# **CYStein Management LLC**

Registered Investment Advisor

CRD #290365

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Form ADV Part 2A  
Firm Brochure  
February 23<sup>rd</sup>, 2019

This brochure provides information about the qualifications and business practices of CYStein Management LLC. Please contact Pedro Padierna at + 41 22 575 20 23 if you have any questions about the content of this brochure.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or any state securities administrator. Additional information about CYStein Management LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Click on the "Investment Adviser Search" link and then search for "Investment Adviser Firm" using the firm's IARD ("CRD") number, which is 290365.

While the firm and its associates may be registered and/or licensed within a particular jurisdiction, that registration and/or licensing in itself does not imply an endorsement by any regulatory authority, nor does it imply a certain level of skill or training on the part of the firm or its associated personnel.

## **Item 2 - Material Changes**

The firm has amended its Form ADV Part 2 brochure from the previous version dated June 5th, 2018 due to an update to the firm's reportable assets under management as of its most recent fiscal year end; please see Item 4 for details. No other material changes have occurred.

The firm may at any time update this document and either send a copy of its updated brochure or provide a summary of material changes to its brochure and an offer to send an electronic or hard copy form of the updated brochure. Clients are also able to download this brochure from the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or may contact our firm at + 41 22 575 20 23 to request a copy at any time.

As with all firm documents, clients and prospective clients are encouraged to review this brochure in its entirety and are encouraged to ask questions at any time prior to or throughout the engagement.

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### **Important Information**

Throughout this document, CYStein Management LLC may also be referred to as “the firm,” “firm,” “our,” “we” or “us.” The client or prospective client may be also referred to as “you,” “your,” etc., and refers to a client engagement involving a single *person* as well as two or more *persons*, including legal entities and natural persons. In addition, the term “advisor” and “adviser” are used interchangeably where accuracy in identification is necessary (i.e., internet address, etc.).

The firm maintains a business continuity and succession plan that is integrated within the organization to ensure it appropriately responds to events that pose a significant disruption to its operations. A statement concerning the current plan is available under separate cover upon request.

## **Item 4 - Advisory Business**

### ***Description of Firm***

CYStein Management LLC is a Switzerland-based registered investment advisor that completed its Delaware limited liability company filing during August of 2017. Typically operating under the trade name CYStein, the firm is not a subsidiary of nor does it control another financial services industry entity.

CYStein became registered as an investment advisor with the United States Securities and Exchange Commission (SEC) in November of 2017. The firm may notice-file (register) or meet exemptions to registration in other jurisdictions in which investment advisory business is conducted.

Pedro I. Padierna, is the firm's Chief Compliance Officer (supervisor), Chief Executive Officer, Managing Member and maintains 50% of the controlling interest in the firm. Additional information about Mr. Padierna and his background may be found in his Form ADV Part 2B brochure supplement. Pedro Padierna Sr., is the firm's Chief Marketing Officer, Managing Member and maintains the other 50% of the controlling interest in the firm.

### ***Description of Services***

CYStein provides ongoing supervision of its clients' portfolios as well as educational seminars involving a broad range of investing topics. Our firm does not offer traditional financial planning services, serve US retirement accounts, or sponsor or serve as a portfolio manager in an investment program involving wrapped (bundled) fees. As of our last fiscal year end, our firm managed \$2.2 million USD<sup>1</sup> of client assets on a discretionary basis.

An initial interview with the client is conducted to discuss their current situation, goals and the scope of services that may be provided by our firm. Prior to or during this first meeting the client will be provided with this Form ADV Part 2 firm brochure that includes a statement involving the firm's privacy policy, as well as a brochure supplement about the firm's representative serving the client. Any material conflicts of interest will be disclosed involving the firm and its associates that could be reasonably expected to impair the rendering of unbiased and objective advice; such as information found in Items 10 and 11 of this brochure.

Our portfolio management services focus on long term investing with low turnover; we do not attempt to time markets. Holdings are oriented toward low cost, widely traded securities that provide adequate diversification.

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<sup>1</sup> Rounding per the SEC's *General Instructions for Part 2 of Form ADV*.



We begin with the development of investment guidelines that reflect the client's objectives, time horizon, tolerance for risk, as well as any reasonable account constraints involving their portfolio. For example, the client has the right to exclude certain securities (e.g., derivatives, "sin stocks," etc.) at their discretion. Portfolio guidelines will be designed to be specific enough to provide future guidance while allowing flexibility to work with changing market conditions. Our firm will then develop a customized portfolio for the client based on their unique situation, and involve the employment of investment strategies and vehicles detailed in Item 8 of this brochure. Client portfolios are managed by the firm on either a discretionary or nondiscretionary basis (defined in Item 16).

CYStein educational seminars are complimentary and topics include investment strategies and current economic events. Events are educational in nature and do not involve the solicitation of insurance or investment products.

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

### ***Portfolio Management Services***

Portfolio management services accounts are assessed an annualized asset-based fee of 0.45% (45 basis points) that is paid monthly, in arrears. Advisory fees are not negotiable. The fee will be determined by the reporting account value as of the last US market day of each month, and in consonance with the statement the client receives from the custodian of record for the purpose of verifying the computation of the advisory fee. In the rare absence of a reportable market value, our firm may seek a third-party opinion from a recognized industry source (e.g., unaffiliated public accounting firm), and our clients may choose to separately seek such an opinion at their own expense as to the valuation of "hard-to-price" securities if necessary. The fee is calculated by multiplying the quotient by the applicable number of basis points (one basis point equals 1/100 of one percent). The result is then divided by 12 to determine the monthly fee.

The first billing cycle will begin once the client agreement is executed and account assets have settled into the client's separately identifiable account held by the custodian of record. Fees for partial month's will be prorated based on the remaining days in the reporting period in which the firm services the account. Fee payments will generally be assessed within the first 10 days of each billing cycle.

The client's written authorization is required in order for the custodian of record to deduct advisory fees from an account. By signing the CYStein engagement agreement, as well as the custodian account opening documents, the client will be authorizing the custodian to withdraw our firm's advisory fees from their account. The custodian will remit advisory fees directly to CYStein; we do not accommodate requests for

direct payment of advisory fees in lieu of the fee being withdrawn from the investment account. Deducted fees will be noted on account statements that the client receives directly from the custodian of record.

### ***Educational Seminars***

While educational sessions are complimentary, we may require reimbursement of normal and customary travel expenses which will be coordinated with the event sponsor in advance.

### ***Additional Client Fees***

Any transactional or service ("brokerage") fees, account termination fees, or wire transfer fees will be borne by the account holder per the separate fee schedule of the custodian of record. Certain fees may be reduced or waived based on the size of the client's account maintained at the custodian. CYStein will ensure that its clients receive a copy of the firm's recommended custodian fee schedule at the beginning of the engagement, and clients will be notified of any future changes to these fees by the custodian of record. Additional information about firm fees in relationship to brokerage and operational practices may be found in Item 12 of this document.

Advisory fees paid to the firm for its advisory services are separate from any internal fees or charges a client may pay for mutual funds, exchange-traded funds (ETFs), exchange-traded notes (ETNs), or other similar investments.

### ***External Compensation Involving Securities***

CYStein does not charge or receive a commission or a mark-up on securities transactions, nor will the firm or an associate be paid a commission on the purchase of a securities holding that is recommended to a client. The firm does not receive "trailer" or SEC Rule 12b-1 fees from a mutual fund company that may be recommended to a client. Fees charged by such issuers are detailed in prospectuses or product descriptions and interested investors are always encouraged to read these documents before investing. Our firm and its associates receive none of these described or similar fees or charges. Clients retain the right to purchase recommended or similar investments through a service provider of their own choice.

### ***Termination of Firm Services***

Either party may terminate the agreement at any time by communicating the intent to terminate in writing. CYStein will not be responsible for investment allocation, advice or transactional services (except for limited closing transactions) upon receipt of a termination notice. It will also be necessary that our firm inform the custodian of record that the relationship between parties has been terminated.

If a client did not receive CYStein's Form ADV Part 2 firm brochure at least 48 hours prior to entering into our firm's agreement, then that client will have the right to terminate the engagement without fee or penalty within five business days after entering into the agreement. A client terminating their agreement after the five business-day rescission period will be assessed fees on a prorated basis for services incurred from either (i) as a new client, the date of the engagement to the date of the firm's receipt of the written notice of termination, or (ii) all other accounts, the last billing period to the date of the firm's physical or constructive receipt of written termination notice. CYStein will return any prepaid, unearned fees within 30 days of the firm's receipt of termination notice via the account holder's investment account held at the custodian of record. If CYStein is unable to deduct its advisory fees from the account at the custodian of record, then our earned fees will be due upon the client's receipt of our invoice.

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

Advisory fees paid to CYStein will not be based on a share of capital gains or capital appreciation (growth) of any portion of managed funds, also known as performance-based fees. Fees will not be based on side-by-side management, which refers to an advisory firm simultaneously managing accounts that do pay performance-based fees (such as a hedge fund) and those that do not.

## **Item 7 - Types of Clients**

Our firm provides advisory services to individuals and high net worth individuals, small businesses, foundations and charitable organizations. We do not require minimum income, minimum asset levels or other similar preconditions, but we do reserve the right to decline services to any prospective client for any nondiscriminatory reason.

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

### ***Methods of Analysis***

We utilize what we believe to be an appropriate blend of fundamental and technical analyses. We evaluate various economic factors including interest rates, the current state of the economy, or the future growth of an investment sector. We then study historical market patterns and trends to assist us in determining the direction of market as well as specific securities. Firm research is often drawn from sources such as financial periodicals and reference materials, economists and other industry professionals, as well as regulatory filings (e.g., annual reports, prospectuses, etc.).

### ***Investment Strategies***

Our primary investment strategy is based on Modern Portfolio Theory; oriented toward reducing risk by diversifying among an extensive range of asset classes such as domestic and international equities, fixed-income securities, and real estate. Portfolios constructed under this theory may be tilted to have a greater exposure toward a specific market capitalization,<sup>2</sup> value stocks,<sup>3</sup> or highly profitable stocks in an effort to capture risk premiums historically associated with those asset classes. We typically recommend ETFs for client portfolios, and will take into consideration preexisting holdings.

### ***Risk of Loss***

CYStein believes its strategies and investment recommendations are designed to produce the appropriate potential return for the given level of risk; however, there is no guarantee that an investment objective will be achieved. Past performance is not necessarily indicative of future results. Investing in securities involves risk of loss that clients should be prepared to bear. While the following list is not exhaustive, examples of

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<sup>2</sup> Market capitalization ("cap") assists investors in understanding the relative size of a company versus another. It aids in measuring the worth of a company in the open market and the market's perception of its future since it reflects what investors may be willing to pay for the company's stock. Examples include:

- Large-Cap – Established companies with market values of \$10 billion or more; reputations for producing quality goods and services; history of consistent dividend payments and steady growth.
- Mid-Cap – Companies with market values between \$2 billion and \$10 billion; established companies in industries experiencing or expected to experience rapid growth, and increasing market share and/or improving competitiveness.
- Small-Cap – Newer companies with market values of \$300 million to \$2 billion; typically serving niche markets or emerging industries. Aggressive risk category investment; may be impacted by economic downturn, vulnerable to competition and uncertainties of their market.

<sup>3</sup> Value investing involves buying above-average positions (holdings) at below-average prices. Conversely, when a holding is considered over-priced, it becomes a candidate to be sold.

such risk are noted in the following paragraphs, and the firm believes it is important that clients review and consider each prior to investing.

#### Active Management

A portfolio that employs active management strategies may, at times, outperform or underperform various benchmarks or other strategies. In an effort to meet or surpass these benchmarks, active portfolio management may require more frequent trading or “turnover.” This may result in shorter holding periods, higher transactional costs and/or taxable events generally borne by the client, thereby potentially reducing or negating certain benefits of active asset management.

#### Company Risk

When investing in securities, such as stocks, there is always a certain level of company or industry-specific risk that is inherent in each company or issuer. There is the risk that the company will perform poorly or have its value reduced based on factors specific to the company or its industry. This is also referred to as *unsystematic risk* and can be reduced or mitigated through diversification.

#### Currency Risk

The risk of loss from fluctuating foreign exchange rates when a portfolio has exposure to foreign currency or in foreign currency traded investments is known as currency risk.

#### Equity (Stock) Risk

Common stocks are susceptible to general stock market fluctuations and to volatile increases or decreases in value as market confidence in and perceptions of their issuers change. If an investor held common stock or common stock equivalents of any given issuer, they may be exposed to greater risk than if they held preferred stocks and debt obligations of the issuer.

Preferred stocks can be affected by interest rate and liquidity risks (described in adjacent paragraphs). Also note that their dividend payment is not guaranteed; some are subject to a call provision, meaning the issuer can redeem its preferred shares on demand, and usually when interest rates have fallen.

#### ETF Risk

The risk of owning ETFs reflect their underlying securities (e.g., stocks, bonds, derivatives, real estate, etc.). These forms of securities typically carry additional expenses based on their share of operating expenses and certain brokerage fees, which may result in the potential duplication of certain fees. Certain ETFs have the potential to be affected by “active risk;” a deviation from its stated index (e.g., S&P 500).

While many ETFs are known for their potential tax-efficiency and higher “qualified dividend income” (QDI) percentages, there are asset classes within these investment vehicles or holding periods within that may not benefit. Shorter holding periods, as well as commodities and currencies (that may be a holding within an ETF), may be considered “non-qualified” under certain tax code provisions. A holding’s QDI should be considered by the investor when tax-efficiency is an important aspect of the client’s portfolio.<sup>4</sup>

Leveraged and/or inverse ETFs attempt to achieve multiples of the performance of an index or benchmark through the opposite (inverse) of the performance of the tracked index or benchmark. This strategy

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<sup>4</sup> Tax declarations and calculation are responsibility of the account holder. CYStein and its associates are not accountants, an accounting firm or tax attorneys. Clients are urged to review their personal situation with their tax professional for specific guidance.



attempts to profit from, or hedge exposures to, downward drifting markets. There is risk involving this strategy and part of the concern is based on the fact that leveraged and inverse exchange traded funds "reset" daily, which means they are designed to achieve their stated objectives on a *daily basis*. It is due to the compounding effect of daily adjustments that ETF performance over longer periods of time can differ significantly from the performance (or inverse of the performance) of an underlying index or benchmark during the same period. This effect is potentially magnified during volatile markets. If effects contrary to the ETF strategy occur, losses may be significant; therefore, leveraged and/or inverse ETFs will be considered for portfolios either properly hedged or for clients able to sustain potentially higher risks. Leveraged and inverse ETFs will not be used in portfolios where a "buy-and-hold" philosophy is important.

#### Financial Risk

Excessive borrowing to finance a business operation increases profitability risk because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

#### Fixed Income Risks

Various forms of fixed income instruments, such as bonds, money market or bond funds may be affected by various forms of risk, including:

- Credit Risk - The potential risk that an issuer would be unable to pay scheduled interest or repay principal at maturity, sometimes referred to as "default risk." Credit risk may also occur when an issuer's ability to make payments of principal and interest when due is interrupted. This may result in a negative impact on all forms of debt instruments, as well as funds or ETF share values that hold these issues. Bondholders are creditors of an issuer and have priority to assets before equity holders (e.g., stockholders) when receiving a payout from liquidation or restructuring. When defaults occur due to bankruptcy, the type of bond held will determine seniority of payment.
- Interest Rate Risk - The risk that the value of the fixed income holding will decrease because of an increase in interest rates.
- Reinvestment Risk - With declining interest rates, investors may have to reinvest interest income or principal at a lower rate.

#### Fundamental Analysis

The challenge involving fundamental analyses is that information obtained may be incorrect; the analysis may not provide an accurate estimate of earnings, which may be the basis for a security's value. If a security's price adjusts rapidly to new information, a fundamental analysis may result in unfavorable performance.

#### Inflation Risk

Also called *purchasing power risk*, is the chance that the cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation.

### Liquidity Risk

The inability to readily buy or sell an investment for a price close to the true underlying value of the asset due to a lack of buyers or sellers. While certain types of fixed income are generally liquid (e.g., bonds), there are risks which may occur such as when an issue trading in any given period does not readily support buys and sells at an efficient price. Conversely, when trading volume is high, there is also a risk of not being able to purchase a particular issue at the desired price.

### Market Risk

This is also called systematic risk. In cases where markets are under extreme duress, many securities lose their ability to provide diversification benefits.

### Passive Management

A portfolio that employs a passive, efficient markets approach has the risk of generating lower-than-expected returns due to its broad diversification when compared to a portfolio more narrowly focused.

### Political Risk

The risk of financial and market loss because of political decisions or disruptions in a particular country or region, and may also be known as "geopolitical risk."

### Research Data

When research and analyses are based on commercially available software, rating services, general market and financial information, or due diligence reviews, a firm is relying on the accuracy and validity of the information or capabilities provided by selected vendors, rating services, market data, and the issuers themselves. While our firm makes every effort to determine the accuracy of the information received, we cannot predict the outcome of events or actions taken or not taken, or the validity of all information researched or provided which may or may not affect the advice on or investment management of an account.

### Technical Analysis

The risk of investing based on technical analyses is that it may not consistently predict a future price movement; the current price of a security may reflect all known information. This may occur due to analyst bias or misinterpretation, a sector analysis error, late recognition of a trend, etc.

### **Item 9 - Disciplinary Information**

Neither the firm nor its management has been involved in a material criminal or civil action in a domestic, foreign or military jurisdiction, an administrative enforcement action, or self-regulatory organization proceeding that would reflect poorly upon the firm's advisory business or its integrity.

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

Firm policies require associated persons to conduct business activities in a manner that avoids conflicts of interest between the firm and its clients, or that may be contrary to law. Our firm will provide disclosure to each client prior to and throughout the term of an engagement regarding any conflicts of interest involving its business relationships that might reasonably compromise its impartiality or independence.

CYStein and its management are not registered nor have an application pending to register as a Financial Industry Regulatory Authority (FINRA) or National Futures Association (NFA) member firm or associated person of such a firm. We are not required to be registered with such entities, nor do they supervise our firm, its activities or our associates. Neither the firm nor its management is or has a material relationship with any of the following types of entities:

- accounting firm or accountant
- another investment advisor, to include financial planning firms, municipal advisors, sub-advisors or third-party investment managers; nor do we recommend/refer, select or utilize their services
- bank, credit union or thrift institution, or their separately identifiable department or division
- insurance company or insurance agency/broker
- lawyer or law firm
- pension consultant
- real estate broker, dealer or advisor
- sponsor or syndicator of limited partnerships
- trust company
- issuer of a security, to include investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund,” or offshore fund)

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

Our advisory firm and its associates will act in the utmost good faith, performing in a manner believed to be in the best interest of our clients. We believe that our business methodologies, ethics rules, and adopted policies are designed to eliminate or at least minimize material conflicts of interest, and to appropriately manage any material conflicts of interest that may remain. It is important to point out that no set of rules can anticipate or relieve all material conflicts of interest. Our firm will disclose to its advisory clients any material conflict of interest relating to the firm, its representatives, or any of its employees which could reasonably be expected to impair the rendering of unbiased and objective advice.

#### ***Code of Ethics***

We have adopted a Code of Ethics that establishes policies for ethical conduct for our personnel. Our firm accepts the obligation not only to comply with applicable regulations but also to act in an ethical and professionally responsible manner in our professional services and activities. Firm policies include prohibitions against insider trading, circulation of industry rumors, and certain political contributions, among others. We periodically review and amend our Code of Ethics to ensure that they remain current, and we require firm personnel to annually attest to their understanding of and adherence to the firm’s Code of Ethics. A copy of the firm’s Code of Ethics is made available to any client or prospective client upon request.

#### ***Privacy Policy Statement***

We respect the privacy of all clients and prospective clients (collectively termed “customers” per US federal guidelines), both past and present. It is recognized that clients have entrusted our firm with non-public personal information and it is important that both access persons and customers are aware of firm policy concerning what may be done with that information.

The firm collects personal information about customers from the following sources:

- Information provided to us to complete their plan or investment recommendation;
- Information provided via engagement agreements and other documents completed in connection with the opening and maintenance of an account;
- Information customers provide verbally; and
- Information received from service providers, such as custodians, about client transactions.

The firm does not disclose non-public personal information about our customers to anyone, except in the following circumstances:

- When required to provide services our customers have requested;
- When our customers have specifically authorized us to do so;
- When required during the course of a firm assessment (i.e., independent audit); or
- When permitted or required by law (i.e., periodic regulatory examination).

To ensure security and confidentiality, the firm maintains physical, electronic, and procedural safeguards to protect the privacy of customer information. Within the firm, access to customer information is restricted to personnel that need to know that information. Access persons and service providers understand that everything handled in firm offices is confidential and they are instructed not to discuss customer information with someone else that may request information about an account unless they are specifically authorized in writing by the customer to do so. This includes providing information about a family member's account.

CYStein will provide customers with its privacy policy statement, in advance, if firm privacy policies are expected to change.

### ***Firm Recommendations and Conflicts of Interest***

Our associates are prohibited from borrowing from or lending to a client unless the client is an approved financial lending institution.

Neither our firm nor its associates are authorized to recommend to a client, or effect a transaction for a client, involving any security in which our firm or a "related person" (associates, their immediate family members, etc.) has a material financial interest, such as in the capacity as an underwriter, advisor to the issuer, etc.

Our firm and its related persons may buy or sell securities that are the same as, similar to, or different from, those we recommend to clients for their accounts. A recommendation made to one client may be different in nature or in timing from a recommendation made to a different client. Clients often have different objectives and risk tolerances. At no time will our firm or any related party receive preferential treatment over our clients. We mitigate this conflict by ensuring that we have policies and procedures in place to ensure that the firm or a related person will not receive preferential treatment over a client. In order to reduce or eliminate certain conflicts of interest involving personal trading (e.g., trading ahead of client recommendations or trades, etc.), firm policy requires that we restrict or prohibit certain related parties' transactions. Any exceptions must be approved in writing by our Chief Compliance Officer, and personal trading accounts are reviewed on a quarterly or more frequent basis. Please refer to Item 6 of the accompanying Form ADV Part 2B for further details.

Our clients are under no obligation to act on our recommendations and, if they elect to do so, they have the right to complete them through a provider of their choice.

## **Item 12 - Brokerage Practices**

### ***Factors Used to Select Broker/Dealers for Client Transactions***

Client accounts must be separately maintained by a qualified custodian (generally a broker/dealer, futures commission merchant, national bank or trust company) that is frequently reviewed for its capabilities to serve in that capacity by their respective industry regulatory authority. CYStein is not a custodian, there is not an affiliate that is a custodian, nor does a custodian supervise our firm, its activities or our associates. We do not receive referrals from a custodian, nor are client referrals a factor in our recommendation of a custodian.

We prefer that our portfolio management services clients use the services of Interactive Brokers LLC ("Interactive Brokers"), an Interactive Brokers Group, Inc. company. Note that Interactive Brokers may clear and/or custody client accounts through its broker/dealer affiliate who is a FINRA and SIPC member firm.<sup>5</sup> While we recommend Interactive Brokers, the client will decide whether to do so and will open their account with them by entering into an account agreement directly with the custodian. We do not technically open the account for the client, although we assist our client in doing so. We may also serve as portfolio manager for accounts maintained at a client's current custodian if their custodian's policies allow us to do so, and following the client's written authorization via limited power of attorney.

Interactive Brokers and its affiliates offer independent investment advisors various services which include custody of client assets, trade execution, clearance and settlement, etc. Our firm may receive other benefits from our preferred custodian through participation in their independent advisor support program. These benefits may include the following products and services (provided either without cost or at a discount):

- receipt of duplicate client statements and confirmations
- research related products and tools
- access to trading desks serving our clients
- access to block trading services
- the ability to have advisory fees deducted directly from a client's accounts (per written agreement)
- resource information related to capital markets and various investments
- access to electronic communications networks for client order entry and account information
- access to mutual funds with no transaction fees
- discounts on marketing, research, technology, and practice management products or services provided to our firm by third-party providers

Some of the noted tools and services made available by our custodian benefit our advisory firm but not directly benefit a client's account. While our firm does not think these services are considered "brokerage or research services" under Section 28(e) of the Securities Exchange Act of 1934, certain jurisdictions where we serve client accounts believe they fall under this definition. The availability of these services benefits our firm because we do not have to produce or purchase them as long as clients maintain assets in accounts at our recommended custodian. A conflict of interest exists since our firm has an incentive to select or

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<sup>5</sup> Our advisory firm is not, nor required to be, a Securities Investor Protection Corporation (SIPC) member. Interested parties may learn more about the SIPC and how it serves member firms and the investing public by going to their website at <http://www.sipc.org>.

recommend a custodian based on our firm's interest in receiving these benefits rather than our clients' interests in receiving favorable trade execution. It is important to mention that the benefit received by our firm through participation in any custodian's program does not depend on the amount of brokerage transactions directed to that custodian, and our selection of a custodian is primarily supported by the scope, quality, and cost of services provided as a whole, not just those services that benefit only our advisory firm. Further, we will act in the best interest of our clients regardless of the custodian we may select. Our firm conducts periodic assessments of any recommended service provider which generally involves a review of the range and quality of services, reasonableness of fees, among other items, in comparison to industry peers.

### ***Best Execution***

"Best execution" means the most favorable terms for a transaction based on all relevant factors, including those listed in the paragraph titled *Factors Used to Select Broker/Dealers for Client Transactions*. Our firm recognizes its obligation in seeking best execution for clients; however, it is believed that the determinative factor is not always the lowest possible cost but whether transactions represent the best "qualitative execution" while taking into consideration the full range of services provided. CYStein will seek services involving competitive rates but it may not necessarily correlate into the lowest possible rate for each transaction. Our firm has determined having clients' trades completed through the noted custodians are consistent with our obligation in seeking best execution. A review is regularly conducted by our firm regarding recommendations of custodians in light of our duty involving best execution.

Our firm may, in its discretion and following custodian approval, accept the client's transfer of preexisting retail mutual funds into their account. A transfer-in-kind of retail share class mutual funds may potentially benefit the client since they are able to invest in their portfolio more quickly, mitigate tax<sup>4</sup> and/or short-term trading liabilities, and/or avoid contingent deferred sales charges (CDSC). Our firm regularly reviews accounts that have transferred different share classes of mutual funds and will convert share classes to a lower expense share class when we believe doing so would be beneficial to the client. In addition, if account assets remain in a retail share class and within a CDSC period, we may exclude those assets from our advisory fee until they have been converted to what we believe is a more appropriate share class.

While our firm has access to a broad range of securities through our custodian, it is a finite number. In addition, not all investment managers, share classes, etc., are represented at each custodian. Due to these normal and customary limitations, not all portfolio holdings will be readily available, least expensive, best performing, etc. It is an unrealistic expectation for an investor to maintain a premise otherwise.

### ***Directed Brokerage***

Internal policy and operational relationship with our custodians require accounts custodied with them to have trades executed per their order routing requirements. Our firm does not direct which executing broker should be selected for account trades; whether that is an affiliate of a preferred custodian or another executing broker of that custodian's choice. As a result, a client may pay higher commissions or other transaction costs, experience greater spreads, or receive less favorable net prices on transactions than might otherwise be the case. In addition, since our firm routinely recommends a particular custodian for clients' accounts, and that custodian may choose to use the execution services of their broker/dealer affiliate for some or all client transactions, there is an inherent conflict of interest involving our recommendation since our firm receives various products or services earlier described from that custodian. Note that CYStein is not compensated for trade routing/order flow, nor is the firm paid commissions on such trades. Our firm does not receive interest on client accounts' cash balances.

Our clients are unable to engage in directed brokerage via our custodian. As a result, they may pay higher commissions or other transaction costs, potentially experience greater spreads, or receive less favorable net prices on transactions for their account than would otherwise be the case if they had the opportunity to direct brokerage.

For those accounts maintained at a custodian of record other than ours, the client may choose to request that a particular broker is used to execute some or all account transactions. Under these circumstances, the client will be responsible for negotiating, in advance of each trade, the terms and/or arrangements involving their account with that broker, whether the selected broker is affiliated with our custodian of record or not. Our firm is not obligated to seek better execution services or prices from these other brokers, and will be unable to aggregate the client's transactions for execution via our custodian with other orders for accounts managed by our firm. As a result, the client may pay higher commissions or other transaction costs, potentially experience greater spreads, or receive less favorable net prices on transactions for their account than would otherwise be the case.

### ***Aggregating Securities Transactions***

Trade aggregation involves the purchase or sale of the same security for several clients/accounts at approximately the same time. This may also be termed "blocked," "bunched" or "batched" orders. Aggregated orders are effected in an attempt to obtain better execution, negotiate favorable transaction rates, or to allocate equitably among multiple client accounts should there be differences in prices, brokerage commissions or other transactional costs that might otherwise be unobtainable through separately placed orders. Our firm may, but is not obligated to, aggregate orders and we do not receive additional compensation or remuneration as a result of aggregated transactions.

The firm intends to utilize trade aggregation whenever practical when a particular type of security is eligible for aggregation and desired to be bought or sold for discretionary accounts. The firm will coordinate and execute the block via the firm's custodian, and allocate post-trade in a reasonable, prorated manner. In the event the firm determines that a prorated allocation is not appropriate under particular circumstances, the allocation will be made based upon other relevant factors, which may include (in no particular order):

- when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weighting relative to other portfolios with similar mandates;
- allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts;
- if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts, such as that which might occur due to unforeseen changes in an account's assets after the order is placed;
- with respect to a sell allocation, allocations may be given to accounts low in cash;
- when a *pro rata* allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, an account may be excluded from the allocation and transactions may be executed on a *pro rata* basis among the remaining accounts; or
- when a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis, with an eye toward the "randomness" of the process (i.e., not always A-to-Z or vice versa, etc.).



Held-away and nondiscretionary accounts are not eligible for block trading, nor are odd-lot or account closure transactions. Our firm is unable to execute mutual fund transactions via an omnibus account; therefore, mutual funds are not “block-traded.” Note that when trade aggregation is not allowed or infeasible and necessitates individual transactions, an account may potentially be assessed higher costs or less favorable prices than those where aggregation has occurred.

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

#### ***Scheduled Reviews***

Investment portfolios are reviewed on a quarterly or more frequent basis by Pedro Padierna. Client-level portfolio reviews are also completed by Mr. Padierna, and we recommend that they occur on at least an annual basis. A copy of revised written plans or asset allocation reports in printed or digital format will be provided to the client upon request.

#### ***Unscheduled Reviews***

You should contact our firm for additional reviews when you anticipate or have experienced changes in your financial situation (i.e., changes in employment, an inheritance, etc.), or if you prefer to change requirements involving your investment account. Interim reviews are conducted by Mr. Padierna.

Additional portfolio reviews by Mr. Padierna may be triggered by news or research related to a specific holding, a change in our view of the investment merits of a holding, or news related to the macroeconomic climate affecting a sector or holding within that sector. A portfolio may be reviewed for an additional holding or when an increase in a current position is under consideration. Account cash levels above or below what we deem appropriate for the investment environment, given the client's stated tolerance for risk and investment objectives, may also trigger a review.

A copy of revised written plans or asset allocation reports in printed or digital format will be provided to the client upon request.

#### ***Client Reports***

Whether you have opened and maintained an investment account on your own or with our assistance, you will receive account statements sent directly from mutual fund companies, transfer agents, custodians or brokerage companies where your investments are held. We urge you to carefully review these account statements for accuracy and clarity, and to ask questions when something is not clear.

CYStein produces its own quarterly performance reports which are calculated using time-weighted methodologies. These reports are provided in printed and digital format, and are reviewed for accuracy prior to delivery by Pedro Padierna. Our reports are intended to inform clients about investment performance over the current period, as well as over the longer term since the account's inception; both on an absolute basis and as compared to a known benchmark. Clients are urged to carefully review and compare account statements that they have received directly from their custodian of record with any report they may receive from our firm or any other source that contains investment performance information.

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

CYStein does not engage in solicitation activities. If our firm receives or offers an introduction to a client, it does not pay or earn referral fee, nor are there established *quid pro quo* arrangements. Each client retains the right to accept or deny such referral or their subsequent services. Please refer to Item 12 for information with respect to our operational relationships and the potential conflicts of interest they present.



### **Item 15 - Custody**

Accounts will be maintained by an unaffiliated, qualified custodian. Assets are not maintained by our firm or any associated person of the firm. In keeping with this policy involving our clients' funds or securities, CYSStein:

- Restricts the firm or an associate from serving as trustee or having general power of attorney over a client account;
- Prohibits any associate from having authority to directly withdraw securities or cash assets from a client account. Although the firm is deemed to have custody since it may request the withdrawal of advisory fees from an account, this will only be accomplished via the custodian of record pursuant to established safekeeping guidelines;
- Does not accept or forward client securities (i.e., stock certificates) erroneously delivered to our firm; and
- Will not collect advance fees of \$1,200 or more for services that are to be performed six months or more into the future.

The custodian of record will provide the client with investment account transaction confirmations and account statements, which will include debits and credits as well as our firm's advisory fee for that period. Statements are provided on at least a quarterly basis or as transactions occur within the client's account. CYSStein does not create its own account statement for a client nor does it serve as the sole recipient of a client account statement.

Clients are reminded that if they receive a report from any source that includes investment performance information, they are urged to carefully review and compare the report with their account statements that they have received directly from their custodian of record.

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

CYSStein typically serves portfolio management accounts on a discretionary basis. Via limited power of attorney, clients grant our firm the authority to implement investment decisions, such as the purchase or sale of a security on behalf of an account, without requiring the client's prior authorization for each transaction in order to meet stated investment objectives. This authority will be provided by the client through the execution of both our engagement agreement and the custodian's account opening documents. Note that the custodian will specifically limit our firm's authority within an account to the placement of trade orders and our request for the deduction of our advisory fees.

On a case-by-case basis, our firm may manage a client portfolio on a nondiscretionary basis. This type of account authority requires the client's ongoing prior approval involving the investment and reinvestment of account assets, and portfolio rebalancing. The client will be required to execute our firm's client services agreement that describes our limited account authority, as well as the custodian of record's account opening document that includes their limited power of attorney form or clause. Considering trading pre-approval requirements, the client must make themselves available and keep our firm updated on their contact information so that instructions can be efficiently effected on their behalf. In addition, nondiscretionary accounts are generally unable to be aggregated (see Item 12), and may therefore be assessed higher trading fees or receive less favorable prices than those accounts where trade aggregation has occurred.

As noted in Item 4, our firm allows for reasonable restrictions that will be noted in the client's investment guidelines involving the management of their account(s). It remains the client's responsibility to notify our

firm if there is a change in their situation and/or investment objective so that our firm may reevaluate previous investment recommendations or portfolio holdings.

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

Account holders may periodically receive proxies or other similar solicitations sent directly from their custodian or transfer agent. If we receive a duplicate copy, we do not normally forward these or any correspondence relating to the voting of your securities, class action litigation, or other corporate actions.

Our firm does not vote proxies on behalf of an account holder, including accounts served on a discretionary basis. The firm does not offer guidance on how to vote proxies, nor will guidance be offered involving a claim or potential claim in a bankruptcy proceeding, class action securities litigation or other litigation or proceeding relating to securities held at any time in a client account, including, without limitation, to file proofs of claim or other documents related to such proceeding, or to investigate, initiate, supervise or monitor class action or other litigation involving client assets. CYStein personnel will answer limited questions with respect to what a proxy voting request or other corporate matter may be and how to reach the issuer or their legal representative.

Each account holder will maintain exclusive responsibility for directing the manner in which proxies solicited by issuers of securities that are beneficially owned by you shall be voted, as well as making all other elections relative to mergers, acquisitions, tender offers or other legal matters or events pertaining to your holdings. Clients should consider contacting the issuer or their legal counsel involving specific questions they may have with respect to a proxy solicitation or corporate action.

#### **Item 18 - Financial Information**

Fee withdrawals must be done through a qualified intermediary (e.g., custodian of record) following the client's written agreement.

Engagements with CYStein do not require the collection of fees from a client of \$1,200 or more for firm advisory services that have been agreed to be performed six months or more into the future.

Neither CYStein nor its management serve as general partner for a partnership or trustee for a trust in which the firm's advisory clients are either partners of the partnership or beneficiaries of the trust.

The firm and its management do not have a financial condition likely to impair its ability to meet commitments to clients, nor has the firm and its management been the subject of a bankruptcy petition.

Due to the nature of the CYStein's services and operational practices, an audited balance sheet is not required nor included in this brochure.