



## **LIVE OAK PRIVATE WEALTH, LLC**

*a Registered Investment Adviser*

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This brochure provides information about the qualifications and business practices of Live Oak Private Wealth, LLC (hereinafter “LOPW” or the “Firm”). If you have any questions about the contents of this brochure, please contact the Firm at the telephone number listed above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Additional information about the Firm is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The Firm is a registered investment adviser. Registration does not imply any level of skill or training.

## **Item 2. Material Changes**

In this Item, LOPW is required to discuss any material changes that have been made to the brochure since the last annual amendment. There are no such material changes to disclose.

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## Item 4. Advisory Business

LOPW offers a variety of advisory services, which include financial planning, consulting, and investment management services. Prior to LOPW rendering any of the foregoing advisory services, clients are required to enter into one or more written agreements with LOPW setting forth the relevant terms and conditions of the advisory relationship (the “Advisory Agreement”).

LOPW filed for registration as an investment adviser in July 2018 and is owned by Live Oak Banking Company, which is owned by Live Oak Bancshares, Inc. As of January 16, 2019, LOPW had \$100,945,105 in assets under management, \$100,240,000 of which was managed on a discretionary basis, and \$705,105 of which was managed on a non-discretionary basis.

While this brochure generally describes the business of LOPW, certain sections also discuss the activities of its Supervised Persons, which refer to the Firm’s officers, partners, directors (or other persons occupying a similar status or performing similar functions), employees or other persons who provide investment advice on LOPW’s behalf and are subject to the Firm’s supervision or control.

### Financial Planning and Consulting Services

LOPW offers clients a broad range of financial planning and consulting services, which include any or all of the following functions:

- |                             |                         |
|-----------------------------|-------------------------|
| • Business Planning         | • Retirement Planning   |
| • Cash Flow Forecasting     | • Risk Management       |
| • Trust and Estate Planning | • Charitable Giving     |
| • Financial Reporting       | • Distribution Planning |
| • Investment Consulting     | • Tax Planning          |
| • Insurance Planning        | • Manager Due Diligence |

While each of these services is available on a stand-alone basis, certain of them can also be rendered in conjunction with investment portfolio management as part of a comprehensive wealth management engagement (described in more detail below).

In performing these services, LOPW is not required to verify any information received from the client or from the client’s other professionals (e.g., attorneys, accountants, etc.) and is expressly authorized to rely on such information. LOPW recommends certain clients engage the Firm for additional related services and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists for the Firm to recommend that clients engage LOPW or its affiliates to provide (or continue to provide) additional services for compensation, including investment management services. Clients retain

absolute discretion over all decisions regarding implementation and are under no obligation to act upon any of the recommendations made by LOPW under a financial planning or consulting engagement. Clients are advised that it remains their responsibility to promptly notify the Firm of any change in their financial situation or investment objectives for the purpose of reviewing, evaluating or revising LOPW's recommendations and/or services.

### **Wealth Management Services**

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LOPW provides clients with wealth management services which include a broad range of financial planning and consulting services as well as discretionary management of investment portfolios. LOPW primarily allocates client assets among various mutual funds, exchange-traded funds ("ETFs"), individual debt and equity securities, options and independent investment managers ("Independent Managers") in accordance with their stated investment objectives.

Where appropriate, the Firm also provides advice about any type of legacy position or other investment held in client portfolios. Clients can engage LOPW to manage and/or advise on certain investment products that are not maintained at their primary custodian, such as variable life insurance and annuity contracts and assets held in employer sponsored retirement plans and qualified tuition plans (i.e., 529 plans). In these situations, LOPW directs or recommends the allocation of client assets among the various investment options available with the product. These assets are generally maintained at the underwriting insurance company or the custodian designated by the product's provider.

LOPW tailors its advisory services to meet the needs of its individual clients and seeks to ensure, on a continuous basis, that client portfolios are managed in a manner consistent with those needs and objectives. LOPW consults with clients on an initial and ongoing basis to assess their specific risk tolerance, time horizon, liquidity constraints and other related factors relevant to the management of their portfolios. Clients are advised to promptly notify LOPW if there are changes in their financial situation or if they wish to place any limitations on the management of their portfolios. Clients can impose reasonable restrictions or mandates on the management of their accounts if LOPW determines, in its sole discretion, the conditions would not materially impact the performance of a management strategy or prove overly burdensome to the Firm's management efforts.

### **Sponsor and Manager of Wrap Program**

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LOPW provides substantially all investment management services as the sponsor and manager of the Live Oak Private Wealth Wrap Program (the "Wrap Program"), a wrap fee program (i.e., an arrangement where certain brokerage commissions and transaction costs are absorbed by the Firm). Accounts managed through the Wrap Program are done so in substantially the same manner as those managed under a non-wrap arrangement. Participants in the Wrap Program may pay a higher or lower aggregate fee than if investment management and brokerage services are purchased separately. Additional information about the Wrap

Program is available in LOPW's Wrap Brochure, which appears as Part 2A Appendix 1 of the Firm's Form ADV (the "Wrap Brochure").

### **Retirement Plan Consulting Services**

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LOPW provides various consulting services to qualified employee benefit plans and their fiduciaries. This suite of institutional services is designed to assist plan sponsors in structuring, managing and optimizing their corporate retirement plans. Each engagement is individually negotiated and customized, and includes any or all of the following services:

- Plan Design and Strategy
- Plan Review and Evaluation
- Executive Planning & Benefits
- Investment Selection
- Plan Fee and Cost Analysis
- Plan Committee Consultation
- Fiduciary and Compliance
- Participant Education

As disclosed in the Advisory Agreement, certain of the foregoing services are provided by LOPW as a fiduciary under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). In accordance with ERISA Section 408(b)(2), each plan sponsor is provided with a written description of LOPW's fiduciary status, the specific services to be rendered and all direct and indirect compensation the Firm reasonably expects under the engagement.

### **Use of Independent Managers**

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As mentioned above, LOPW selects certain Independent Managers to actively manage a portion of its clients' assets. The specific terms and conditions under which a client engages an Independent Manager may be set forth in a separate written agreement with the designated Independent Manager. In addition to this brochure, clients may also receive the written disclosure documents of the respective Independent Managers engaged to manage their assets.

LOPW evaluates a variety of information about Independent Managers, which includes the Independent Managers' public disclosure documents, materials supplied by the Independent Managers themselves and other third-party analyses it believes are reputable. To the extent possible, the Firm seeks to assess the Independent Managers' investment strategies, past performance and risk results in relation to its clients' individual portfolio allocations and risk exposure. LOPW also takes into consideration each Independent Manager's management style, returns, reputation, financial strength, reporting, pricing and research capabilities, among other factors.

LOPW continues to provide services relative to the discretionary or non-discretionary selection of the Independent Managers. On an ongoing basis, the Firm monitors the performance of those accounts being

managed by Independent Managers. LOPW seeks to ensure the Independent Managers' strategies and target allocations remain aligned with its clients' investment objectives and overall best interests.

## Item 5. Fees and Compensation

LOPW offers services on a fee basis, which includes fixed and/or hourly fees, as well as fees based upon assets under management. For investment management fees associated with participation in the Wrap Program, please see the Wrap Brochure.

### Financial Planning and Consulting Fees

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LOPW charges a fixed and/or hourly fee for providing financial planning and consulting services under a stand-alone engagement. These fees are negotiable, but range from \$500 to \$10,000 on a fixed fee basis and/or from \$150 to \$400 on an hourly basis, depending upon the scope and complexity of the services and the professional rendering the financial planning and/or the consulting services. If the client engages the Firm for additional investment advisory services, LOPW may offset all or a portion of its fees for those services based upon the amount paid for the financial planning and/or consulting services.

The terms and conditions of the financial planning and/or consulting engagement are set forth in the Advisory Agreement and LOPW requires one-half of the fee (estimated hourly or fixed) payable upon execution of the Advisory Agreement. The outstanding balance is due upon delivery of the financial plan or completion of the agreed upon services. The Firm does not, however, take receipt of \$1,200 or more in prepaid fees in excess of six months in advance of services rendered.

### Investment Management Fees

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LOPW offers investment management services for an annual fee based on the amount of assets under the Firm's management. This management fee varies between 150 and 40 basis points (1.50% – 0.40%), in accordance with the following blended fee schedule:

<b><u>PORTFOLIO VALUE</u></b>	<b><u>FEE</u></b>
First \$500,000	1.50%
Next \$500,000	1.25%
Next \$1,000,000	1.00%
Next \$3,000,000	0.80%
Next \$5,000,000	0.60%
Next \$10,000,000	0.50%
Above \$20,000,000	0.40%

The annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by LOPW on the last day of the previous quarter. If assets are deposited into or withdrawn from an account after the inception of a billing period, the fee payable with respect to such assets is prorated based on the number of days remaining in the current quarter. For the initial period of an engagement, the fee is calculated on a *pro rata* basis. In the event the advisory agreement is terminated, the fee for the final billing period is prorated through the effective date of the termination and the outstanding or unearned portion of the fee is charged or refunded to the client, as appropriate.

Additionally, for asset management services the Firm provides with respect to certain client holdings (e.g., held-away assets, accommodation accounts, alternative investments, etc.), LOPW may negotiate a fee rate that differs from the range set forth above.

### **Fee Discretion**

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LOPW may, in its sole discretion, negotiate to charge a different fee based upon certain criteria, such as anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing/legacy client relationship, account retention and pro bono activities.

### **Additional Fees and Expenses**

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In addition to the advisory fees paid to LOPW, clients also incur certain charges imposed by other third parties, such as broker-dealers, custodians, trust companies, banks and other financial institutions (collectively “Financial Institutions”). These additional charges include securities brokerage commissions, transaction fees, custodial fees, fees attributable to alternative assets, fees charged by the Independent Managers, margin costs, charges imposed directly by a mutual fund or ETF in a client’s account, as disclosed in the fund’s prospectus (e.g., fund management fees and other fund expenses), 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. The Firm’s brokerage practices are described at length in Item 12, below.

### **Direct Fee Debit**

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Clients provide LOPW and/or certain Independent Managers with the authority to directly debit their accounts for payment of the investment advisory fees. The Financial Institutions that act as the qualified custodian for client accounts, from which the Firm retains the authority to directly deduct fees, have agreed to send statements to clients not less than quarterly detailing all account transactions, including any amounts paid to LOPW. Alternatively, clients may elect to have LOPW send a separate invoice for direct payment.



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**Use of Margin**

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LOPW may recommend that certain clients utilize margin in the client's investment portfolio or other borrowing. LOPW only recommends such borrowing for non-investment needs, such as bridge loans and other financing needs. The Firm's fees are determined based upon the value of the assets being managed gross of any margin or borrowing.

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**Account Additions and Withdrawals**

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Clients can make additions to and withdrawals from their account at any time, subject to LOPW's right to terminate an account. Additions can be in cash or securities provided that the Firm reserves the right to liquidate any transferred securities or declines to accept particular securities into a client's account. Clients can withdraw account assets on notice to LOPW, subject to the usual and customary securities settlement procedures. However, the Firm designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. LOPW may consult with its clients about the options and implications of transferring securities. Clients are advised that when transferred securities are liquidated, they may be subject to transaction fees, short-term redemption fees, fees assessed at the mutual fund level (e.g., contingent deferred sales charges) and/or tax ramifications.

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

LOPW does not provide any services for a performance-based fee (i.e., a fee based on a share of capital gains or capital appreciation of a client's assets).

**Item 7. Types of Clients**

LOPW offers services to individuals, pension and profit sharing plans, trusts, estates, corporations and business entities.

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**Minimum Account Requirements**

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As a condition for starting and maintaining an investment management relationship, LOPW imposes a minimum portfolio value of \$500,000 or a minimum quarterly fee of \$1,875. LOPW may, in its sole discretion, accept clients with smaller portfolios or charge a lesser fee based upon certain criteria, including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and pro bono

activities. The minimum fee will cause clients with smaller portfolios to incur an effective fee rate that is higher than the Firm's stated fee schedule. LOPW only accepts clients with less than the minimum portfolio size if the Firm determines the smaller portfolio size will not cause a substantial increase of investment risk beyond the client's identified risk tolerance. LOPW may aggregate the portfolios of family members to meet the minimum portfolio size.

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

### **Methods of Analysis and Investment Strategies**

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LOPW's services are most suited for long term, risk adverse, goal minded high net-worth individuals and families. LOPW is not suitable for everyone. The Firm's time horizon on many of its portfolio investments could be three years or more. The Firm's style and philosophy will be suited for someone that always expects to meet or exceed a certain benchmark or expects positive returns each and every year.

At the very heart of LOPW's investment philosophy is a recognition and deep understanding of the importance of capital preservation and the power of compounding. The Firm's disciplined philosophy is a conservative, value oriented approach that is focused on portfolio management solutions designed to help clients grow, preserve and manage their wealth. LOPW's philosophy makes the Firm especially wary of investment fads and much consideration is given to how much one could potentially lose on an investment before considering how much a client might make.

One of the more compelling aspects of investing and compounding is the math of gains and losses. Very simply, a 50% gain does not allow a portfolio to recover from a 50% loss. In fact, a 100% gain is required to restore a 50% loss. Therefore, LOPW's investment philosophy is grounded firmly in discipline, patience and solid process. The Firm believes that understanding behavioral attributes of investors allows the Firm to avoid many of the biases that hurt many and helps LOPW to be counter-intuitive towards allocating clients' capital. LOPW believes that its temperament to remain steadfast in its convictions, especially when others are consumed by fear or greed, is necessary to obtaining superior long term wealth accumulation.

LOPW's goal and objective in managing client assets is to lower risk by carefully selecting a diversified basket of businesses that have the lowest price to value ratio. LOPW runs concentrated portfolios, typically around twenty positions. The Firm will invest greater amounts of clients' capital in companies with lower price to value ratios and lesser amounts will be committed to companies that are more expensive: LOPW likes to be invested fully if possible, but does hold cash when it believes that not enough quality businesses at fair prices are available.

LOPW's investment approach might be referred to as applying a private equity mindset in investing in public markets. LOPW looks at businesses based on if it was to buy the whole company, what would be

the cash returns in year one, two, three and four. LOPW is looking for businesses that have identifiable sustainable competitive advantages. LOPW's definition of a good business is a business that process free cash flow. Growth in net income is not of much interest unless it is accompanied by robust production of free cash flow. The businesses that are competitively entrenched produce free cash flow and those that are not, don't. LOPW believes it is that simple. LOPW wants to invest in businesses that have sustainable competitive advantages that are becoming more competitively entrenched. LOPW is looking what it believes are castles with deep moats that are getting deeper, at a fair price and priced such that an intelligent investor has a margin of safety.

LOPW's primary investment return goal is to compound clients' capital at real rates of return significantly in excess of inflation over a five-year time horizon. LOPW does not manage the portfolio to a benchmark and believes strongly that focusing on the fundamentals of investing, especially the price to value ratio of great businesses, will deliver attractive returns relative to benchmarks over the long term.

### **Risk of Loss**

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The following list of risk factors does not purport to be a complete enumeration or explanation of the risks involved with respect to the Firm's investment management activities. Clients should consult with their legal, tax, and other advisors before engaging the Firm to provide investment management services on their behalf.

LOPW defines risk as the probability of permanently losing money over a five-year time horizon. The Firm does not consider market fluctuations and volatility as risks. LOPW believes that public market volatility creates opportunity for investors who understand that price and value are not always equal. "Price is what you pay and value is what you get," means the greater the margin of safety in terms of value over price, the lower the risk of losing permanent capital. The Firm believes that a truly great business purchased at an attractive price has very little risk in the long run even though its price might fluctuate significantly in the short run. LOPW believes that following a rigorous investment process focused on truly great public business first, portfolio construction and monitoring second, can generate superior long-term absolute returns while minimizing the risk of permanent capital loss.

### *Market Risks*

Investing involves risk, including the potential loss of principal, and all investors should be guided accordingly. The profitability of a significant portion of LOPW's recommendations and/or investment decisions may depend to a great extent upon correctly assessing the future course of price movements of stocks, bonds and other asset classes. In addition, investments may be adversely affected by financial markets and economic conditions throughout the world. There can be no assurance that LOPW will be able to predict these price movements accurately or capitalize on any such assumptions.

*Volatility Risks*

The prices and values of investments can be highly volatile, and are influenced by, among other things, interest rates, general economic conditions, the condition of the financial markets, the financial condition of the issuers of such assets, changing supply and demand relationships, and programs and policies of governments.

*Cash Management Risks*

The Firm may invest some of a client's assets temporarily in money market funds or other similar types of investments, during which time an advisory account may be prevented from achieving its investment objective.

*Equity-Related Securities and Instruments*

The Firm may take long in common stocks of U.S. and non-U.S. issuers traded on national securities exchanges and over-the-counter markets. The value of equity securities varies in response to many factors. These factors include, without limitation, factors specific to an issuer and factors specific to the industry in which the issuer participates. Individual companies may report poor results or be negatively affected by industry and/or economic trends and developments, and the stock prices of such companies may suffer a decline in response. In addition, equity securities are subject to stock risk, which is the risk that stock prices historically rise and fall in periodic cycles. U.S. and non-U.S. stock markets have experienced periods of substantial price volatility in the past and may do so again in the future. In addition, investments in small-capitalization, mid-capitalization and financially distressed companies may be subject to more abrupt or erratic price movements and may lack sufficient market liquidity, and these issuers often face greater business risks.

*Fixed Income Securities*

Fixed income securities are subject to the risk of the issuer's or a guarantor's inability to meet principal and interest payments on its obligations and to price volatility.

*Mutual Funds and ETFs*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption

fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to actual NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed based ETFs and potentially more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 20,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

#### *Use of Independent Managers*

As stated above, LOPW selects certain Independent Managers to manage a portion of its clients' assets. In these situations, LOPW continues to conduct ongoing due diligence of such managers, but such recommendations rely to a great extent on the Independent Managers' ability to successfully implement their investment strategies. In addition, LOPW does not have the ability to supervise the Independent Managers on a day-to-day basis.

#### *Options*

Options allow investors to buy or sell a security at a contracted "strike" price at or within a specific period of time. Clients may pay or collect a premium for buying or selling an option. Investors transact in options to either hedge (i.e., limit) losses in an attempt to reduce risk or to speculate on the performance of the underlying securities. Options transactions contain a number of inherent risks, including the partial or total loss of principal in the event that the value of the underlying security or index does not increase/decrease to the level of the respective strike price. Holders of options contracts are also subject to default by the option writer which may be unwilling or unable to perform its contractual obligations.

#### *Currency Risks*

An advisory account that holds investments denominated in currencies other than the currency in which the advisory account is denominated may be adversely affected by the volatility of currency exchange rates.

#### *Interest Rate Risks*

Interest rates may fluctuate significantly, causing price volatility with respect to securities or instruments held by clients.

## Item 9. Disciplinary Information

LOPW has not been involved in any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of its management.

## Item 10. Other Financial Industry Activities and Affiliations

This item requires investment advisers to disclose certain financial industry activities and affiliations.

### Related Bank and Trust Company

LOPW is owned by, and shares the same office with, Live Oak Banking Company ("Live Oak Bank"), a nationwide bank that provides financial solutions to small businesses which includes loans and trust services. In the event a client requires banking services provided by Live Oak Bank, the Firm will recommend Live Oak Bank. In addition, Live Oak Bank will recommend LOPW to its customers for advisory services. The Firm does not receive any portion of any compensation received by Live Oak Bank for services to the Firm's clients, nor does the Firm pay any compensation to Live Oak Bank for referrals to the Firm. However, because of the common ownership and possible involvement by representatives of the Firm and Live Oak Bank in both businesses, there exists a conflict of interest to the extent that either the Firm or Live Oak Bank recommend the services of the other. Furthermore, the Firm will not recommend investment in Live Oak Bank's owner, Live Oak Bancshares, Inc., to clients.

## Item 11. Code of Ethics

LOPW has adopted a code of ethics in compliance with applicable securities laws ("Code of Ethics") that sets forth the standards of conduct expected of its Supervised Persons. LOPW's Code of Ethics contains written policies reasonably designed to prevent certain unlawful practices such as the use of material non-public information by the Firm or any of its Supervised Persons and the trading by the same of securities ahead of clients in order to take advantage of pending orders.

The Code of Ethics also requires certain of LOPW's personnel to report their personal securities holdings and transactions and obtain pre-approval of certain investments (e.g., initial public offerings, limited offerings). However, the Firm's Supervised Persons are permitted to buy or sell securities that it also recommends to clients if done in a fair and equitable manner that is consistent with the Firm's policies and procedures. This Code of Ethics has been established recognizing that some securities trade in sufficiently broad markets to permit transactions by certain personnel to be completed without any appreciable impact

on the markets of such securities. Therefore, under limited circumstances, exceptions may be made to the policies stated below.

When the Firm is engaging in or considering a transaction in any security on behalf of a client, no Supervised Person with access to this information may knowingly effect for themselves or for their immediate family (i.e., spouse, minor children and adults living in the same household) a transaction in that security unless:

- the transaction has been completed;
- the transaction for the Supervised Person is completed as part of a batch trade with clients; or
- a decision has been made not to engage in the transaction for the client.

These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by money market funds; and iv) shares issued by other unaffiliated open-end mutual funds.

Clients and prospective clients may contact LOPW to request a copy of its Code of Ethics.

## Item 12. Brokerage Practices

### Recommendation of Broker-Dealers for Client Transactions

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LOPW recommends that clients utilize the custody, brokerage and clearing services of Charles Schwab & Co, Inc. through its Schwab Advisor Services division ("Schwab") for investment management accounts. The final decision to custody assets with Schwab is at the discretion of the client, including those accounts under ERISA or IRA rules and regulations, in which case the client is acting as either the plan sponsor or IRA accountholder. LOPW is independently owned and operated and not affiliated with Schwab. Schwab provides LOPW with access to its institutional trading and custody services, which are typically not available to retail investors.

Factors which LOPW considers in recommending Schwab or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. Schwab enables the Firm to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. Schwab has also agreed to reimburse clients for exit fees associated with moving accounts to Schwab. The reimbursement is only available up to a certain amount for all of the Firm's clients over a twelve month period. Fees are reimbursed on a first-come-first-served basis so that no clients are favored.

The commissions and/or transaction fees charged by Schwab may be higher or lower than those charged by other Financial Institutions.

The commissions paid by LOPW's clients to Schwab comply with the Firm's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified Financial Institution might charge to effect the same transaction where LOPW determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a Financial Institution's services, including among others, the value of research provided, execution capability, commission rates and responsiveness. LOPW seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Consistent with obtaining best execution, brokerage transactions are directed to certain broker-dealers in return for investment research products and/or services which assist LOPW in its investment decision-making process. Such research will be used to service all of the Firm's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because LOPW does not have to produce or pay for the products or services.

LOPW periodically and systematically reviews its policies and procedures regarding its recommendation of Financial Institutions in light of its duty to obtain best execution.

#### **Software and Support Provided by Financial Institutions**

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LOPW receives without cost from Schwab administrative support, computer software, related systems support, as well as other third party support as further described below (together "Support") which allow LOPW to better monitor client accounts maintained at Schwab and otherwise conduct its business. LOPW receives the Support without cost because the Firm renders investment management services to clients that maintain assets at Schwab. The Support is not provided in connection with securities transactions of clients (i.e., not "soft dollars"). The Support benefits LOPW, but not its clients directly. Clients should be aware that LOPW's receipt of economic benefits such as the Support from a broker-dealer creates a conflict of interest since these benefits may influence the Firm's choice of broker-dealer over another that does not furnish similar software, systems support or services Schwab. In fulfilling its duties to its clients, LOPW endeavors at all times to put the interests of its clients first and has determined that the recommendation of Schwab is in the best interest of clients and satisfies the Firm's duty to seek best execution.

Specifically, LOPW receives the following benefits from Schwab: i) receipt of duplicate client confirmations and bundled duplicate statements; ii) access to a trading desk that exclusively services its institutional traders; iii) access to block trading which provides the ability to aggregate securities



transactions and then allocate the appropriate shares to client accounts; and iv) access to an electronic communication network for client order entry and account information.

In addition, the Firm receives funds to be used toward qualifying third-party service providers for research, marketing, compliance, technology and software platforms and services.

These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a certain amount of the advisor's clients' assets are maintained in accounts at Schwab Advisor Services. Schwab's services include brokerage services that are related to the execution of securities transactions, custody, research, including that in the form of advice, analyses and reports, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For client accounts maintained in its custody, Schwab generally does not charge separately for custody services but is compensated by account holders through commissions or other transaction-related or asset-based fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Schwab also makes available to the Firm other products and services that benefit the Firm but may not benefit its clients' accounts. These benefits may include national, regional or Firm specific educational events organized and/or sponsored by Schwab. Other potential benefits may include occasional business entertainment of personnel of LOPW by Schwab personnel, including meals, invitations to sporting events, including golf tournaments, and other forms of entertainment, some of which may accompany educational opportunities. Other of these products and services assist LOPW in managing and administering clients' accounts. These include software and other technology (and related technological training) that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of the Firm's fees from its clients' accounts, and assist with back-office training and support functions, recordkeeping and client reporting. Many of these services generally may be used to service all or some substantial number of the Firm's accounts, including accounts not maintained at Schwab. Schwab also makes available to LOPW other services intended to help the Firm manage and further develop its business enterprise. These services may include professional compliance, legal and business consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, employee benefits providers, human capital consultants, insurance and marketing. In addition, Schwab may make available, arrange and/or pay vendors for these types of services rendered to the Firm by independent third parties. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to the Firm. While, as a fiduciary, LOPW endeavors to act in its clients' best interests, the Firm's recommendation that clients maintain their assets in accounts at Schwab may be based in part on the benefits received and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which creates a potential conflict of interest.

**Brokerage for Client Referrals**

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LOPW does not consider, in selecting or recommending broker-dealers, whether the Firm receives client referrals from the Financial Institutions or other third party.

**Directed Brokerage**

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The client may direct LOPW in writing to use a particular Financial Institution to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that Financial Institution and the Firm will not seek better execution services or prices from other Financial Institutions or be able to “batch” client transactions for execution through other Financial Institutions with orders for other accounts managed by LOPW (as described above). As a result, the client may pay higher commissions or other transaction costs, greater spreads or may receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, LOPW may decline a client’s request to direct brokerage if, in the Firm’s sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

**Trade Aggregation**

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Transactions for each client will be effected independently, unless LOPW decides to purchase or sell the same securities for several clients at approximately the same time. LOPW may (but is not obligated to) combine or “batch” such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among the Firm’s clients differences in prices and commissions or other transaction costs that might not have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and allocated among LOPW’s clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that the Firm determines to aggregate client orders for the purchase or sale of securities, including securities in which LOPW’s Supervised Persons may invest, the Firm does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. LOPW does not receive any additional compensation or remuneration as a result of the aggregation.

In the event that the Firm determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which include: (i) 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 weightings relative to other portfolios, with similar mandates; (ii) 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; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be

reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, the Firm may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

## Item 13. Review of Accounts

### Account Reviews

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LOPW monitors client portfolios on a continuous and ongoing basis while regular account reviews are conducted on at least a quarterly basis. Such reviews are conducted by the Firm's Principals. All investment advisory clients are encouraged to discuss their needs, goals and objectives with LOPW and to keep the Firm informed of any changes thereto. The Firm contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and quarterly to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

### Account Statements and Reports

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Clients are provided with transaction confirmation notices and regular summary account statements directly from the Financial Institutions where their assets are custodied. From time-to-time or as otherwise requested, clients may also receive written or electronic reports from LOPW and/or an outside service provider, which contain certain account and/or market-related information, such as an inventory of account holdings or account performance. Clients should compare the account statements they receive from their custodian with any documents or reports they receive from LOPW or an outside service provider.

## Item 14. Client Referrals and Other Compensation

The Firm does not currently provide compensation to any third-party solicitors for client referrals.

**Item 15. Custody**

LOPW is deemed to have custody of client funds and securities because the Firm is given the ability to debit client accounts for payment of the Firm's fees. As such, client funds and securities are maintained at one or more Financial Institutions that serve as the qualified custodian with respect to such assets. Such qualified custodians will send account statements to clients at least once per calendar quarter that typically detail any transactions in such account for the relevant period.

In addition, as discussed in Item 13, LOPW will also send, or otherwise make available, periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the Financial Institutions and compare them to those received from LOPW.

**Item 16. Investment Discretion**

LOPW is given the authority to exercise discretion on behalf of clients. LOPW is considered to exercise investment discretion over a client's account if it can effect and/or direct transactions in client accounts without first seeking their consent. LOPW is given this authority through a power-of-attorney included in the agreement between LOPW and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). LOPW takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made; and
- The Independent Managers to be hired or fired.

**Item 17. Voting Client Securities****Acceptance of Proxy Voting Authority**

LOPW accepts the authority to vote a client's securities (i.e., proxies) on their behalf. When LOPW accepts such responsibility, it will only cast proxy votes in a manner consistent with the best interest of its clients. Absent special circumstances, which are fully-described in the Firm's Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in LOPW's Proxy Voting Policies and Procedures, as they may be amended from time-to-time. Clients may contact LOPW

to request information about how the Firm voted proxies for that client's securities or to get a copy of LOPW's Proxy Voting Policies and Procedures. A brief summary of LOPW's Proxy Voting Policies and Procedures is as follows:

- LOPW has formed a Proxy Voting Committee that will be responsible for monitoring corporate actions, making voting decisions in the best interest of clients, and ensuring that proxies are submitted in a timely manner.
- The Proxy Voting Committee will vote proxies according to LOPW's then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including: composition of the board of directors; approval of independent auditors; management and director compensation; anti-takeover mechanisms and related issues; changes to capital structure; corporate and social policy issues; and issues involving mutual funds.
- Although the Proxy Voting Guidelines are followed as a general policy, certain issues are considered on a case-by-case basis based on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, the Firm devotes an appropriate amount of time and resources to monitor these changes.
- Clients cannot direct LOPW's vote on a particular solicitation but can revoke the Firm's authority to vote proxies.

In situations where there is a conflict of interest in the voting of proxies due to business or personal relationships that LOPW maintains with persons having an interest in the outcome of certain votes, the Firm takes appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

## **Item 18. Financial Information**

LOPW is not required to disclose any financial information due to the following:

- The Firm does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance of services rendered;
- The Firm does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- The Firm has not been the subject of a bankruptcy petition at any time during the past ten years.