



**Item 1. COVER PAGE**

**Form ADV Part 2A**

**First Citizens Asset Management, Inc.**

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This brochure provides information about the qualifications and business practices of First Citizens Asset Management, Inc. ("FCAM"). If you have any questions about the contents of this brochure, please contact us at 800-233-0205. 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 FCAM is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You may locate this information by use of FCAM's CRD registration number which is 140777.

FCAM is an SEC registered investment adviser under the Investment Advisers Act of 1940. Registration does not imply a certain level of skill or training. FCAM is a corporation formed under the laws of the State of South Carolina and is wholly owned by First-Citizens Bank & Trust Company, which is a publicly traded company.

All programs, investments and services described in this brochure are offered by FCAM and are not offered by a bank. These programs (i) are not insured by the Federal Deposit Insurance Corporation (FDIC) or any other agency of the United States, (ii) are not deposits or obligations of, or guaranteed by, a bank or affiliate of any bank or FCAM, and (iii) involve risk, including possible loss of principal and loss of value.

\* "First Citizens Wealth Management" is a joint marketing mark of First-Citizens Bank & Trust Company, Member FDIC; First Citizens Investor Services, Inc., Member FINRA/SIPC, an SEC-registered broker-dealer and investment adviser; and First Citizens Asset Management, Inc., an SEC-registered investment adviser.

**Item 2. MATERIAL CHANGES**

Item 5 has been updated to reflect a change in the range of fees assessed by Managers.

Item 9 has been updated to provide information on the SEC Share Class Initiative and First Citizens Asset Management's (FCAM) participation and self-reporting.

Item 11 has been updated to provide clarification on 12b-1 fees from Mutual Funds.

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## **Item 4. ADVISORY BUSINESS**

### **A. Description of Firm.**

FCAM is a wholly owned subsidiary of First-Citizens Bank & Trust Company ("FCB"), which is a publicly-traded company. FCAM has been in business since 2006.

### **B. Description of Services.**

FCAM's business is currently to (i) provide sub-advisory services to First Citizens Investor Services, Inc. ("FCIS"), member FINRA, SIPC, an SEC registered investment advisory firm and brokerage firm which is affiliated with FCAM and registered with the SEC (the "Sub-Advisory Services") and (ii) provide direct investment advisory services to individuals, corporations and other business entities (the "Retail Services").

#### **1. Sub-Advisory Services.**

FCIS clients (the "FCIS Clients") may gain indirect access to FCAM's portfolio management services through FCIS' use of FCAM-created model portfolios that include specific securities and their percentages as part of an overall investment portfolio ("Model Portfolios"). FCIS will determine which of FCAM's Model Portfolios apply to each FCIS Client.

FCAM provides investment advisory models and services with three different broad investment implementation frameworks: 1) global multi-asset class models using funds and exchange-traded products ("Funds"), 2) global multi-asset class models using exchange-traded products only ("ETF"), and 3) income-oriented models using funds and exchange-traded products ("Income-Oriented"). The models within each framework are described in further detail below.

1. The Funds models utilize a combination of funds and exchange-traded products in an attempt to provide a globally diversified portfolio of stocks, bonds, and non-traditional asset classes with the potential to achieve an attractive risk-adjusted return over a full market cycle. The models are likely to incorporate funds and exchange-traded products that are both actively-managed and passively-managed (indexed) in nature.
2. The ETF models utilize exchange-traded products in an attempt to provide a globally diversified portfolio of stocks, bonds, and non-traditional asset classes with the potential to achieve an attractive risk-adjusted return over a full market cycle. While some of the exchange-traded products in the models may be actively-managed, they will primarily be passively-managed (indexed) in nature.
3. The Income-Oriented models utilize a combination of funds and exchange-traded products in an attempt to provide a globally diversified portfolio of stocks, bonds, and non-traditional asset classes with the potential to achieve an attractive risk-adjusted yield over a full market cycle. The models are likely to incorporate funds and exchange-traded products that are both actively-managed and passively-managed (indexed) in nature.

Model Portfolios constructed as part of FCAM's Sub-Advisory Program contain a wide range of asset classes seeking to create a diversified portfolio with a specific risk profile (e.g., aggressive, moderately aggressive, moderate, moderately conservative and conservative). FCIS (and not FCAM) works with its clients to determine which model or models would be appropriate for them.

The Model Portfolios use dynamic asset allocation strategies paired with manager research to create and provide global multi-asset class models suitable for a range of risk profiles and investment objectives. Model Portfolio construction begins with the establishment of a deep universe of market exposures and the development of forward-looking capital market assumptions for each of these asset classes. The capital market assumptions are derived from macroeconomic data, fundamental market data, and interest rate dynamics. The asset classes are combined within a mean-variance optimization framework that utilizes risk-budgeting to control risk exposures at the asset class and consolidated risk exposure levels. Portfolio investments are selected based on the criteria described below and are blended together using active risk budgeting and manager fit techniques in an attempt to mitigate manager risk while retaining the potential for excess returns. The models are monitored on an ongoing basis with formal investment committee reviews at least quarterly. The models are updated when opportunities exist to materially enhance the expected risk-adjusted return.

FCAM's investment committee (the "Investment Committee" or "Committee") discretionarily manages the models, including selection of the specific funds and any other securities used in the models. As part of the decision-making process for the selection and monitoring of model investments, the Committee uses information from independent reporting sources. The Committee's decision to include or retain a fund in the model is guided by a combination of quantitative and qualitative criteria.

### ***Quantitative Criteria***

Quantitative criteria are evaluated both in terms of a fund's absolute performance and performance relative to its peer universe and performance benchmark, and may include (among other things):

- Rate of return
- Standard deviation of returns
- Risk-adjusted rate of return
- Expense ratio
- Assets under management

### ***Qualitative Criteria***

Qualitative criteria used in fund evaluations may include (among other things):

- Tenure and composition of portfolio management team
- Length of fund's track record
- Investment philosophy and process
- Risk management process
- Financial, operational, and client servicing resources

The Committee meets at quarterly and on an as-needed basis, and periodically reviews the models and considers the addition of new investments to the models. When appropriate, FCAM considers adding or

removing funds. The removal of a fund may be based upon the criteria described above or upon other information the Committee deems material, including a fund's change of terms and/or imposition of new restrictions, such as closing to further investments. The Committee considers all relevant criteria; no one criterion is necessarily determinative.

## **2. Retail Services.**

### **a. In General.**

In connection with the Retail Services, FCAM's business is to provide investment advisory services to individuals, corporations and other business entities. FCAM consults with the client to obtain detailed financial information and other pertinent data in order to determine the appropriate investment guidelines, risk tolerance and other factors that will assist in ascertaining the suitability of the account. The client, in its discretion, may impose restrictions on FCAM's ability to implement particular types of investments or strategies on its behalf. Asset management services are provided to clients on a limited discretionary or non-discretionary basis. The investment advisory services of FCAM are provided to clients through an appropriately licensed and qualified individual who is an investment adviser representative of FCAM (referred to as your "FCAM Investment Adviser Representative" throughout this brochure). You may obtain information about your FCAM Investment Adviser Representative through the Brochure Supplement, which is a separate document that is provided along with this disclosure brochure. If you did not receive a Brochure Supplement for your FCAM Investment Adviser Representative, please contact FCAM Compliance at 800-223-0205.

As part of the Retail Services, FCAM provides three different types of investment advisory programs: 1) WRAP Program, 2) Separately Managed Account (SMA) Program, and 3) Unified Managed Account (UMA) Program.

- WRAP Program bundles advisory, administrative, and transaction charges into one asset-based wrap fee. A portion of the wrap fee is allocated to the administrative fee, which covers administrative and supervisory services provided by FCAM as well as transaction, execution, clearing and custodial services as provided by a third party clearing firm.
- Separately Managed Account (SMA) Program gives a third party manager discretionary authority with respect to investment management of client accounts. The FCAM Investment Adviser Representative will assist clients in selecting one or more managers based upon the client's risk tolerance, investment objectives, goals and objectives.
- Unified Managed Account (UMA) Program gives the client the ability to use money managers using discretion and/or the client and the FCAM Investment Adviser Representative together on a non-discretionary basis to create a portfolio. The client and the FCAM Investment Adviser Representative will identify the client's investment goals and objectives as well as risk tolerance in order to determine the combination of portfolio management. Under the FCAM UMA Program, FCAM provides certain discretionary advisory management services to state and local municipal entities, including investing proceeds of and/or funds used to satisfy obligations under municipal offerings within U.S. Government and agency securities.

**b. FCAM Retail Programs.**

FCAM oversees clients' portfolios based upon the client's risk profile, investment horizon, financial goals, income (current and potential), tax bracket, portfolio size, net worth and other various suitability factors. Assets are allocated within a mix of securities including, but not limited to, equities, bonds, convertible bonds, government securities, municipal bonds, preferred stock, mutual funds and exchange traded funds. FCAM offers clients the ability to have access to third party money managers. Each client has the opportunity to place reasonable restrictions on the type of investments to be held in the portfolio although restrictions and guidelines imposed by clients affect the composition and performance of portfolios. For this reason, performance of portfolios within the same investment objective may differ.

- The FCAM WRAP Program offers "wrap account" programs which bundle advisory, administrative, and transaction charges into one asset-based wrap fee. A portion of the wrap fee is allocated to the administrative fee, which covers administrative and supervisory services provided by FCAM as well as transaction, execution, clearing and custodial services as provided by a third party clearing firm. FCAM also receives a portion of the wrap fee for advisory services. Clients should consider that depending upon the level of the wrap fee charges, the amount of portfolio activity in their accounts, the value of services that are provided under these programs, and other factors, the wrap fee may or may not exceed the aggregate cost of services if they were to be provided separately. Under a Wrap Program, assets would be managed by FCAM generally in the same manner as assets managed by FCAM for clients not in a Wrap Program other than the requirements or restrictions of the particular program; however, the assets in a Wrap Program would be subject to the client's particular investment needs and objectives.
- In the FCAM SMA Program, clients may elect to utilize the investment skills of professional third party money managers. This program gives the third party manager discretionary authority with respect to investment management of client accounts. FCAM Investment Adviser Representatives assist clients in selecting one or more managers based upon the client's risk tolerance and investment objectives. Clients may impose reasonable restrictions upon the management of the account. Through the selected platform providers, FCAM is able to offer to clients a variety of money managers which allow the FCAM Investment Adviser Representative to match the client's investment objectives and goals to the manager. The platform provider monitors managers on an on-going basis for financial soundness and performance, and to insure that the manager is adhering to the goals and investment objectives stated in the program and provides this information to FCAM's Investment Committee. Additionally, the platform provider monitors the performance of other third party money managers not included in the program to determine whether any other managers should be included to better serve clients and provides this information to FCAM's Investment Committee.
- Through the FCAM UMA Program, clients may select a money manager and/or the FCAM Investment Adviser Representative to manage the account. The money manager the client selects will have discretion and the FCAM Investment Adviser Representative will work with the clients on a non-discretionary basis. The client and FCAM Investment Adviser Representative will work together to identify their investment goals and objectives as well as risk tolerance in order to create an initial

portfolio allocation designed to complement the client's financial situation and personal circumstances to determine a portfolio management. FCAM has developed specific asset allocation models consisting of various investment vehicles including equities, fixed income securities and alternative investments which the FCAM Investment Adviser Representative will evaluate to determine the best fit for a client. The FCAM Investment Adviser Representative may deviate from the models at his/her discretion to meet a client's specific needs. The investment strategies utilized depend on the individual client's investment objectives and goals as provided to the FCAM Investment Adviser Representative. Portfolios are constructed along basic investment objective categories and focus primarily on a long-term buy and hold approach as opposed to short-term trading. The FCAM Investment Adviser Representative may periodically rebalance the client's account to maintain the initially agreed upon strategic and tactical asset allocation. However, no changes are made to the agreed-upon asset allocation nor are assets rebalanced without prior client review and consent.

Clients will receive periodic performance reports from FCAM. FCAM has discretion to hire or terminate any third party manager and assign or reassign investment managers. Termination of a third party manager does not terminate the program or your account with FCAM. The platform provider may have an attorney-in-fact for the account and may vote proxies according to its discretion. FCAM does not act in such a capacity or have such authority. It is the client's responsibility to notify FCAM if there have been any changes in their financial situation, investment objectives, or management restrictions. At least annually, FCAM will consult with clients to determine whether there have been any changes in their financial situation or investment objectives, and whether clients wish to impose any reasonable restrictions on the management of the account or reasonably modify any existing restrictions

***c. SMA/UMA Programs – Third Party Manager Selection and Monitoring***

FCAM may select third party managers available in the SMA or UMA Programs ("SMA/UMA Managers") primarily from information that was provided by those firms and/or was publicly available. Performance information used by FCAM is generally provided by the relevant third party management firm; FCAM does not attempt to independently determine or verify the information's accuracy or its compliance with presentation standards. The third party management firms may not calculate performance information on a uniform or consistent basis. FCAM from time-to-time considers additional third party management firms for the SMA or UMA Programs. In this process, FCAM may obtain and rely upon certain information from independent sources, including a consultant.

In its selection and monitoring, the FCAM Investment Committee analyzes the SMA/UMA Managers and candidate firms based upon a combination of quantitative and qualitative criteria.

***Quantitative Criteria***

Quantitative criteria are evaluated both in terms of a portfolio manager's or a firm's absolute performance and performance relative to its peer universe and performance benchmark, and may include (among other things):

- Rate of return
- Standard deviation of returns
- Risk-adjusted rate of return



- Implementation cost
- Assets under management

### ***Qualitative Criteria***

Qualitative criteria used in portfolio manager or firm evaluations may include (among other things):

- Tenure and composition of portfolio management team
- Length of product's track record
- Investment philosophy and process
- Risk management process
- Financial, operational, and client servicing resources

The Committee meets quarterly and on an as-needed basis, and periodically reviews the SMA/UMA Managers. When appropriate, the Committee considers removing a firm as a SMA/UMA Manager. The removal of an SMA/UMA Manager may be based upon the criteria described above or upon other information the Committee deems material. The Committee considers all relevant criteria; no one criterion is necessarily determinative. In its review process, the Committee places emphasis on a SMA/UMA Manager's long-term overall performance.

### ***3. Investment Advisory Services to Municipalities.***

As part of the FCAM UMA Program, FCAM provides certain discretionary advisory management services to state and local municipal entities, including investing proceeds of and/or funds used to satisfy obligations under municipal offerings within U.S. Government and agency securities. Such advisory services are offered pursuant to the exemption pursuant to Exchange Act Section 15B(e)(4)(C), which exempts from the definition of municipal adviser any investment adviser registered under the Advisers Act, or persons associated with such investment advisers who are providing investment advice pursuant to an advisory agreement within the scope of the Advisers Act.

### **C. Amount of Client Assets Managed.**

As of December 31, 2018, FCAM managed \$63,582,110 of client assets on a discretionary basis, and \$91,963,523 of client assets on a non-discretionary basis.

## **Item 5. FEES AND COMPENSATION**

### **A. Sub-Advisory Services.**

FCIS will generally compensate FCAM directly out of fees that it receives from FCIS Clients. FCAM will generally receive a fee in the range of 0.0% to .50% of the assets under management in the FCIS Client account. Fees will be deducted directly from the client's account and may be negotiable.

### **B. Retail Services.**

For Retail Services, clients are billed the asset-based fee in advance based upon the assets under management on either a monthly or quarterly basis, depending upon the particular program chosen. The timing of such billing

is determined, in part, by the particular investment program chosen by the FCAM Investment Adviser Representative along with the client. Details of fees, as well as the timing of such fees, will be discussed and disclosed in the client agreement prior to opening an account.

#### FCAM WRAP Program Fee Schedule

Account Size	Maximum Fee
\$50,000 - \$100,000	2.00%
\$100,001 - \$200,000	1.75%
\$200,001 - \$500,000	1.25%
\$500,001 AND ABOVE	1.00%

#### FCAM SMA Program Fee Schedule

Account Size	Maximum Fee
\$50,000 - \$100,000	2.00%
\$100,001 - \$200,000	1.75%
\$200,001 - \$500,000	1.25%
\$500,001 AND ABOVE	1.00%

#### FCAM UMA Program Schedule

Market Value	Maximum Annual Fee	
	Equity & Balanced	Fixed Income
\$100,000 - \$249,999	2.75%	1.85%
\$250,000 - \$499,999	2.75%	1.80%
\$500,000 - \$749,999	2.00%	1.50%
\$750,000 - \$999,999	2.00%	1.50%
\$1,000,000 - \$1,999,999	2.00%	1.25%
\$2,000,000 - \$4,999,999	1.50%	1.00%
Amounts Over \$5,000,000	1.00%	0.85%

These fee amounts may be negotiated depending upon circumstances including, but not limited to, account composition and complexity, other client, employee or family relationships, etc. which may result in different fees being charged for client accounts similar in composition and objectives.

Note that mutual funds, including exchange traded funds and similar investment products, in which client assets are invested by FCAM or by others, impose separate investment management fees and other operating

expenses, described in the fund's prospectus, for which the client will be charged separately from the fee paid to FCAM for its services.

FCAM utilizes money market funds as temporary investment vehicles for clients as permitted by law and subject to applicable restrictions. The use of money market funds in "sweep" arrangements, for temporary investment purposes or otherwise, may result in FCAM earning advisory, distribution or other fees described herein. The fees earned by FCAM may vary depending on the money market funds utilized.

Management fees are payable in advance on a monthly or quarterly basis, commencing when both the client investment management agreement is signed and the assets are deposited in the client's account. Either party may terminate the contract upon written notice. Upon termination, FCAM will refund any prorated amount due to the client as of the termination date.

FCAM is not compensated on the basis of a share of capital gains or capital appreciation in a client's account or any portion thereof.

The client will grant FCAM the authority to receive monthly and quarterly fee payments directly from the client's account held by an independent custodian. Accordingly, the client provides, in writing, limited authorization to withdraw the contractually agreed upon fees from the account. The custodian of the account is made aware of the limitation of FCAM's access to the account. The custodian sends the client a statement, at least quarterly, indicating all the amounts disbursed from the account including the amount of advisory fees paid directly to FCAM which the client should verify for accuracy as to our fee calculation. The custodian of the account holds all customer assets. FCAM does not physically hold or handle customer funds or securities.

Clients may be able to purchase shares of mutual funds outside of the FCAM programs directly from mutual fund issuers, their principal underwriters or a distributors without purchasing the services of the FCAM program or paying the FCAM account fee on such shares (but subject to any applicable sales charges). Certain mutual funds are offered to the public without a sales charge. In the case of mutual funds offered with a sales charge, the prevailing sales charge (as described in the mutual fund prospectus) may be more or less than the applicable FCAM account fee. However, FCAM clients may not then receive the benefit of the representative's investment advice related to such outside investments. If you elect to have your FCAM Investment Adviser Representative, in his or her separate capacity as a registered representative of a licensed broker-dealer (if applicable), implement the recommendations of FCAM with respect to such outside investments, your FCAM Investment Adviser Representative at his or her discretion may waive or reduce the investment advisory fee charged by the amount of the commissions received as a registered representative. Any reduction of the investment advisory fee will not exceed 100% of the commission received as a registered representative. Note that with or without such waiver or reduction of the investment advisory fees, this practice may present a conflict of interest because it gives the FCAM Investment Adviser Representative an incentive to recommend investment products based on the compensation received, rather than on a client's needs.

Administrative fees normally applicable to retirement accounts and qualified plans sponsored by the custodian are waived for accounts in the FCAM Retail Programs, with the exception of 401(k) plan set-up fees, retirement account and qualified plan termination fees, and other fees (such as electronic fund/wire transfer fees) identified in the custodian's documents related to retirement accounts and qualified plans. Some Third Party Managers may assess additional charges and/or fees for certain products or services which they provide; if the

product(s) or service(s) are selected by the FCIS Client, the account will pay those amounts. Fees such as 12(b)-1 fees received by FCIS are rebated to the FCAM client's retirement or plan account.

As described elsewhere in this Brochure, FCAM receives 12b-1 (distribution) fees for the sale of certain mutual funds purchased by advisory clients. Client assets are sometimes invested in shares of registered funds (such as mutual funds) that offer several classes of shares with different fees. Some share classes charge 12b-1 (distribution) fees, shareholder services fees or administrative fees and pay these fees to FCAM. Distribution payments, or 12b-1 fees, compensate FCAM for selling registered fund shares. Shareholder services and administrative fees compensate FCAM for customer account services and administration such as account and trade detail recordkeeping, customer statement preparation and delivery, tax reporting, and other services that the registered mutual fund otherwise would have provided. Distribution, shareholder services and administrative fees are deducted from the mutual fund's assets and indirectly paid by the fund's shareholders. Registered funds often offer one or more share classes that do not charge 12b-1 or shareholder services fees. Clients may be able to invest in lower-cost share classes directly.

#### **Item 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Performance-based fees are fees based on a share of capital gain on or capital appreciation of the assets within the client's account. FCAM is not compensated on the basis of a share of capital gains or capital appreciation of the models.

#### **Item 7. TYPES OF CLIENTS**

##### **A. Sub-Advisory Services Clients.**

FCAM provides sub-advisory services to FCIS and indirectly provides investment advice to individual persons, trusts and other clients of FCIS. FCAM does not enter into direct advisory relationships with FCIS Clients.

##### **B. Retail Services Clients.**

FCAM's Retail Services clients include individual persons, trusts, estates, charitable organizations, municipalities and other governmental entities, and corporations or similar business entities. Clients are required to execute a written agreement with FCAM specifying the particular advisory services desired in order to establish a client arrangement with FCAM. Generally, FCAM's minimum account size for Retail Services clients is \$50,000 for the WRAP Program and \$100,000 for the SMA and UMA Programs, although these minimums may be waived based on considerations such as the account's relationship to established clients and other factors. FCAM is not currently accepting new Retail Services clients.

#### **Item 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

##### **A. Methods of Analysis for Sub-Advisory Services and Retail Services.**

FCAM may use the following methods of analysis in formulating investment advice in connection with both the Sub-Advisory Services and the Retail Services:

### **1. Cyclical.**

This method analyzes investments by understanding business cycles and gauging the sensitivity of investments to different phases of the business cycle and the overall economy. For example, cyclical companies tend to make products or provide services that are in lower demand during downturns in the economy and in higher demand during upswings. Examples include the automobile, steel, and housing industries. The stock price of a cyclical company will often rise just before an economic upturn begins, and fall just before a downturn begins. While most economists and investors agree that there are cycles in the economy that need to be respected, the duration of such cycles is generally unknown. An investment decision to buy at the bottom of a business cycle may actually turn out to be a trade that occurs before or after the bottom of the cycle. If done before the bottom, then downside price action can result prior to any gains. If done after the bottom, then some upside price action may be missed. Similarly, a sell decision meant to occur at the top of a cycle may result in missed opportunity or unrealized losses.

### **2. Fundamental.**

This is a method of evaluating a security by attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (like the overall economy and industry conditions) and individually specific factors (like the financial condition and management of a company). The end goal of performing fundamental analysis is to produce a value that an investor can compare with the security's current price in hopes of figuring out what sort of position to take with that security (underpriced = buy, overpriced = sell or short). Fundamental analysis is about using real data to evaluate a security's value. Although most analysts use fundamental analysis to value stocks, this method of valuation can be used for many different types of asset classes or securities.

One of the risks associated with fundamental analysis is that it is somewhat subjective. While a quantitative approach is possible, fundamental analysis usually entails a qualitative assessment of how market forces interact with one another in their impact on the investment in question. It is possible for those market forces to point in different directions, thus necessitating an interpretation of which forces will be dominant. This interpretation may be wrong, and could therefore lead to an unfavorable investment decision.

### **3. Technical.**

This is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity. Technical analysts believe that the historical performance of stocks and markets are indications of future performance.

Technical analysis can be more subjective than fundamental analysis in that it relies on proper interpretation of a given security's price and trading volume data. A decision might be made based on a historical move in a certain direction that was accompanied by heavy volume; however, that heavy volume may only be heavy relative to past volume for the security in question, but not compared to the future trading volume. Therefore, there is the risk of a trading decision being made incorrectly, since future trading volume is an unknown. Technical analysis is also done through observation of various market sentiment readings, many of which are quantitative. Market

sentiment gauges the relative degree of bullishness and bearishness in a given security, and a contrarian investor utilizes such sentiment advantageously. One of the risks in utilization of such technical sentiment measures is that a very bullish reading can always become more bullish, resulting in lost opportunity if the money manager chooses to act upon the bullish signal by selling out of a position. The reverse is also true in that a bearish reading of sentiment can always become more bearish, which may result in a premature purchase of a security.

There are risks involved in using any analysis method.

To conduct analysis, FCAM may gather information from financial newspapers and magazines, research materials prepared by others, corporate rating services, timing services, annual reports, prospectuses and filings with the SEC, and company press releases.

#### **4. Types of Securities.**

FCAM does not primarily recommend one type of security to clients. Instead, it recommends any product that may be suitable for each client relative to that client's specific circumstances and needs.

#### **B. Sub-Advisory Services Investment Strategies.**

FCAM may use the following investment strategies when managing client assets and/or providing investment advice in connection with the Sub-Advisory Services:

*Long term purchases.* Investments held at least a year.

*Short term purchases.* Investments sold within a year.

*Dynamic asset allocation.* Allows for a range of percentages in each asset class (such as Stocks = 40-50%). The ranges establish minimum and maximum acceptable percentages that permit FCAM to take advantage of market conditions within these parameters. Thus, FCAM can move to the higher end of the range when stocks are expected to do better and to the lower end when there is a less favorable outlook.

#### **C. Retail Services Investment Strategies.**

FCAM may use the following investment strategies when managing client assets and/or providing investment advice in connection with the Retail Services:

*Long term purchases.* Investments held at least a year.

*Short term purchases.* Investments sold within a year.

*Dynamic asset allocation.* Allows for a range of percentages in each asset class (such as Stocks = 40-50%). The ranges establish minimum and maximum acceptable percentages that permit FCAM to take advantage of market conditions within these parameters. Thus, FCAM can move to the higher end of the range when stocks are expected to do better and to the lower end when there is a less favorable outlook.

*Tactical asset allocation.* Allows for a range of percentages in each asset class (such as Stocks =40-50%). The ranges establish minimum and maximum acceptable percentages that permit the investor to take advantage of market conditions within these parameters. Thus, a minor form of market timing is possible, since the investor can move to the higher end of the range when stocks are expected to do better and to the lower end when the economic outlook is bleak.

*Strategic asset allocation.* Calls for setting target allocations and then periodically rebalancing the portfolio back to those targets as investment returns skew the original asset allocation percentages. The concept is akin to a “buy and hold” strategy, rather than an active trading approach. Of course, the strategic asset allocation targets may change over time as the client’s goals and needs change and as the time horizon for major events such as retirement and college funding grow shorter.

#### **D. Risks Related to Both Sub-Advisory Services and Retail Services Investment Recommendations.**

##### **1. Risk of Loss.**

Past performance is not indicative of future results. Therefore, the client should never assume that future performance of any specific investment or investment strategy will be profitable. Investing in securities (including stocks, mutual funds, and bonds, etc.) involves risk of loss. Further, depending on the different types of investments there may be varying degrees of risk. The client should be prepared to bear investment loss including loss of original principal.

Because of the inherent risk of loss associated with investing, FCAM is unable to represent, guarantee, or even imply that its services and methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate the client from losses due to market corrections or declines.

##### **2. Additional Risks.**

There are certain additional risks associated with investing in securities through FCAM’s programs, as described below:

- **Market Risk** – Either the stock market as a whole, or the value of an individual company, goes down resulting in a decrease in the value of client investments. This is also referred to as systematic risk.
- **Equity (stock) market risk** – Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. If you held common stock, or common stock equivalents, of any given issuer, you would generally be exposed to greater risk than if you held preferred stocks and debt obligations of the issuer.
- **Company Risk** – When investing in stock positions, there is always a certain level of company or industry specific risk that is inherent in each investment. This is also referred to as unsystematic risk and can be reduced through appropriate diversification. 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. For example, if a company’s employees go on strike or the company receives unfavorable media attention for its actions, the value of the company may be reduced.

- **Fixed Income Risk** – When investing in bonds, there is the risk that the issuer will default on the bond and be unable to make payments. Further, individuals who depend on set amounts of periodically paid income face the risk that inflation will erode their spending power. Fixed-income investors receive set, regular payments that face the same inflation risk.
- **Options Risk** – Options on securities may be subject to greater fluctuations in value than an investment in the underlying securities. Purchasing and writing put and call options are highly specialized activities and entail greater than ordinary investment risks.
- **ETF and Mutual Fund Risk** – When investing in an ETF or mutual fund, you will bear additional expenses based on your pro rata share of the ETF's or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds.
- **Management Risk** – Your investment with our firm varies with the success and failure of our investment strategies, research, analysis and determination of portfolio securities. If our investment strategies do not produce the expected returns, the value of your investments can also underperform expectations.
- **Interest Rate Risk** – The interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship. Such changes usually affect securities inversely and can be reduced by diversifying (investing in fixed-income securities with different durations) or hedging (such as through an interest rate swap).
- **Currency Risk** – Currency risk, commonly referred to as exchange-rate risk, arises from the change in price of one currency in relation to another. Investors or companies that have assets or business operations across national borders are exposed to currency risk that may create unpredictable profits and losses. Currency risk can be reduced by hedging, which offsets currency fluctuations.
- **Foreign exchange risk** – Also called FX risk, currency risk, or exchange rate risk, this is the financial risk of an investment's value changing due to the changes in currency exchange rates. This also refers to the risk an investor faces when he needs to close out a long or short position in a foreign currency at a loss, due to an adverse movement in exchange rates.
- **Model Risk** – Can occur when a financial model used to measure a firm's market risks or value transactions does not perform the tasks or capture the risks it was designed to. Model risk is considered a subset of operational risk, as model risk mostly affects the firm that creates and uses the model. Traders or other investors who use the model may not completely understand its assumptions and limitations, which limits the usefulness and application of the model itself.
- **Margin Risk** – When you purchase securities, you may pay for the securities in full or borrow part of the purchase price from your account custodian or clearing firm. If you intended to borrow funds in connection with your Account, you will be required to open a margin account, which will be carried by the clearing firm. The securities purchased in such an account are the clearing firm's collateral for its loan to you.



If those securities in a margin account decline in value, the value of the collateral supporting this loan also declines, and as a result, the brokerage firm is required to take action in order to maintain the necessary level of equity in your account. The brokerage firm may issue a margin call and/or sell other assets in your account.

It is important that you fully understand the risks involved in trading securities on margin, which are applicable to any margin account that you may maintain, including any margin account that may be established as part of the Asset Management Agreement established between you and FCAM and held by the account custodian or clearing firm.

These risks include the following:

- You can lose more funds than you deposit in your margin account.
- The account custodian or clearing firm can force the sale of securities or other assets in your account.
- The account custodian or clearing firm can sell your securities or other assets without contacting you.
- You are not entitled to choose which securities or other assets in your margin account may be liquidated or sold to meet a margin call.
- The account custodian or clearing firm may move securities held in your cash account to your margin account and pledge the transferred securities.
- The account custodian or clearing firm can increase its “house” maintenance margin requirements at any time and they are not required to provide you advance written notice.
- You are not entitled to an extension of time on a margin call.

#### **Item 9. DISCIPLINARY INFORMATION**

In February 2018, the U.S. Securities and Exchange Commission (“SEC”) announced an industry-wide initiative to identify and remedy conflicts of interest that arise where investment advisers failed to make required disclosures relating to their selection of certain mutual fund share classes that paid the adviser (or its related entities) a fee pursuant to Rule 12b-1 under the Investment Company Act of 1940 (“12b-1 fee”) when a lower-cost share class for the same fund was available to clients. First Citizens Asset Management, Inc. (“FCAM”) elected to participate in this initiative and, based on information that FCAM provided, the SEC issued an Order Instituting Administrative and Cease-and-Desist Proceedings against FCAM on March 11, 2019 (the “Order”). The SEC determined that for the period January 1, 2014 through July 20 2018, FCAM purchased, recommended, or held for advisory clients mutual fund share classes that paid 12b-1 fees to FCAM (or its affiliated broker-dealer) instead of lower-cost share classes for the same funds for which the clients were eligible. The SEC determined that FCAM did not adequately disclose this conflict of interest, and that the failure to do so constituted breaches of FCAM’s fiduciary duties and willful violations of Sections 206(2) and 207 of the Investment Advisers Act of 1940 (the “Advisers Act”). The SEC, among other things, censured FCAM and ordered FCAM to cease-and-desist from any future violations of Sections 206(2) and 207 of the Advisers Act, and to pay \$54,820.40 in disgorgement and \$7,598.04 in prejudgment interest to FCAM’s affected investors, in accordance with procedures set forth in the Order. The SEC did not order a civil monetary penalty or fine. The SEC also directed FCAM to complete certain remedial undertakings. FCAM consented to the Order without admitting or denying the SEC’s findings (except as to jurisdiction, which was admitted). The SEC’s Order can be found at <https://www.sec.gov/litigation/admin/2019/ia-5123.pdf>.

On the same day that FCAM settled, the SEC settled with 78 other investment advisers for similar conduct. In order to ensure that this conduct is not repeated, among other things, since September 30, 2014, FCAM has been crediting all 12b-1 fees back to advisory accounts.

## **Item 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### **A. Affiliations Material to Both Sub-Advisory and Retail Services.**

#### **1. *First-Citizens Bank & Trust Company***

FCAM is a wholly-owned subsidiary of FCB. A client referred to FCAM by FCB should be aware of the following about the securities generally recommended and/or purchased/sold on behalf of a client by FCAM. Such securities:

- Are not insured by the Federal Deposit Insurance Corporation (FDIC) or any other federal or state deposit guarantee fund or other government agency;
- Not endorsed or guaranteed by FCB or its affiliates;
- Are not deposits or obligations of the depository institutions and are not guaranteed by the depository institutions; and
- Are subject to investment risks, including possible loss of principal invested.

Certain employees of FCB will act as dual employees and investment advisory representatives of FCAM, and will be involved in the creation and management of Model Portfolios for FCAM.

Michael Wilson is the President of FCAM, and is also Director of the Wealth Management Group of FCB. In this capacity, he is responsible for various departments, including FCB's trust department, private banking department and FCIS.

#### **2. *First Citizens Investor Services.***

Certain FCAM Investment Adviser Representatives are also registered representatives of FCIS. In this capacity, they may execute transactions in securities such as mutual funds, equities, bonds, options, annuities and other investment products to clients of FCIS who may also be clients of FCAM on an agency basis only and receive normal and customary commissions as a result of securities transactions. They spend approximately 75% of their time on these activities on behalf of FCIS. These FCAM Investment Adviser Representatives may also be licensed, registered or approved through insurance companies and through FCIS to offer insurance products such as life insurance, long-term care insurance, whole life insurance, and term life insurance and receive normal and customary commissions as a result of such a purchase. These insurance products may be offered to clients of FCIS who are also clients of FCAM. They spend 5% of their time on these activities on behalf of FCIS.

However, FCAM's primary business is as an investment adviser. The dually registered FCAM Investment Adviser Representatives spend the remainder of their time in this capacity on behalf of FCAM. As stated, FCAM Investment Adviser Representatives may receive compensation for the non-advisory services described above

that they may provide on behalf of FCIS. Such compensation to the FCAM Investment Adviser Representatives would be in addition to, and separate from, the advisory and other fees that FCAM may receive for its services.

The foregoing compensation arrangements may create a conflict of interest to the FCAM Investment Adviser Representative since the FCAM Investment Adviser Representative may have an incentive to recommend those investment or insurance products described above based on the commissions received rather than the client's investment needs. FCAM addresses this conflict by not allowing the FCAM Investment Adviser Representative to receive such commission based compensation through their capacity as registered representatives of FCIS.

Clients are free to implement recommendations received from FCAM or from FCIS through any firm of their choosing. Clients are under no obligation to purchase or sell securities through FCIS or any other company affiliated with FCAM. However, if clients participate in any of the FCAM WRAP Programs set forth above in the section on Advisory Business, their securities transactions will be executed through FCIS which may create a conflict of interest since FCAM has a material arrangement with FCIS for the provision of such execution services as well as administrative support, investment and research tools, and other investment-related services. In addition, under the rules and regulations of FINRA, FCIS has the obligation to perform certain supervisory functions regarding certain aspects of the advisory activities of FCAM Investment Adviser Representatives who are also registered representatives of FCIS. FCAM may pay FCIS a portion of the advisory fees it receives for its services in this regard.

Notwithstanding the foregoing, FCAM strives to serve the best interests of its clients. However, FCAM does not warrant or represent that commissions for transactions implemented through FCIS will be lower than commission costs incurred if clients were to use another brokerage firm although FCAM believes the overall level of services and support provided to clients by FCAM outweighs the potentially lower transaction cost available through other unaffiliated brokerage arrangements. FCAM does not reduce its investment advisory fees by the amount of any commissions or similar fees received by the FCAM Investment Adviser Representatives in their capacity as registered representatives of FCIS.

## **B. Affiliations Material to Sub-Advisory Services.**

FCAM is affiliated with FCIS, which engages FCAM as a sub-adviser. FCIS will have discretionary authority to hire or terminate FCAM as a sub-adviser. This creates a conflict of interest because both these affiliated parties have an incentive to retain each other (including for FCAM to retain FCIS to perform brokerage services), and to recommend clients to each other, in order to keep as much work "in-house" as possible. You are under no obligation to utilize our affiliate's sponsored investment advisory platform or to select us as a sub-adviser.

Prior to effecting any such transactions, you are required to enter into a new brokerage account agreement with FCIS. The commissions charged by FCIS may be higher than those charged by other broker/dealers. Affiliations Material to Retail Services.

### **1. Affiliation with FCIS.**

As discussed in the sections on Advisory Business and Fees and Compensation above, FCAM has a material arrangement with an affiliated brokerage firm, FCIS. The management, certain support staff and certain FCAM Investment Adviser Representatives are also registered representatives of FCIS, a securities broker-dealer. You may work with your FCAM Investment Adviser Representative in his or her separate capacity as a registered

representative of FCIS. When acting in his or her separate capacity as a registered representative of FCIS, your FCAM Investment Adviser Representative may sell, for commissions, general securities products such as stocks, bonds, mutual funds, exchange-traded funds, and annuity and life products to you. As such, your FCAM Investment Adviser Representative may suggest that you implement investment advice by purchasing securities products through a commission-based brokerage account in addition to or in lieu of a fee-based investment-advisory account. This receipt of commissions creates an incentive to recommend those products for which your FCAM Investment Adviser Representative will receive a commission in his or her separate capacity as a registered representative of FCIS. Consequently, the objectivity of the advice rendered to you could be biased.

You are under no obligation to use the services of our representatives in this separate capacity or to use FCIS and can select any broker/dealer you wish to implement securities transactions. If you select your FCAM Investment Adviser Representative to implement securities transactions, in his or her separate capacity as a registered representative of FCIS, he or she must use FCIS. Prior to effecting any such transactions, you are required to enter into a new account agreement with FCIS. The commissions charged by FCIS may be higher than those charged by other broker/dealers.

### **Financial Planning**

FCAM may prepare and provide clients with a written financial plan designed to help them achieve their individual financial goals and investment objectives. The preparation of such a plan may necessitate that the client provide FCAM with personal data such as family records, budgeting, personal liability, estate information and additional financial goals. The financial plan may include (among other things) any or all of the following as requested and/or directed by the client: asset protection, tax planning, business succession, strategies for exercising stock options, cash flow, education planning, estate planning and wealth transfer, charitable gifting, long-term care and disability planning, retirement planning, insurance planning, asset allocation comparisons, and risk management. Implementation of financial plan recommendations is entirely at the client's discretion. You should be aware that there are important topics that may not be included or covered when your FCAM Investment Adviser Representative develops his or her analysis and recommendations under a written financial plan. FCAM does not charge a fee for financial planning services provided to FCAM clients.

FCAM does not provide tax, accounting or legal advice. Should a client choose to implement the recommendations contained in the plan, FCAM suggests the client work closely with his/her attorney, accountant, insurance agent, and/or registered representative, some of whom may also be affiliates of FCAM.

Certain companies which are affiliated with FCAM may also function as clients' insurance agent and/or registered representative in addition to providing investment advisory services. As part of the initial and continuing implementation of an investment plan on a client's behalf, FCAM and certain of its employees will receive commissions from the purchase or sale by a client of certain investment products such as annuities, real estate investment trusts and certain insurance products. Please refer to the sections on Fees and Compensation and on Other Financial Activities and Affiliations below for additional important information.

Clients should understand that they remain responsible for notifying FCAM of changes in their financial circumstances, investment objectives or investment restrictions. In addition, FCAM will not verify independently any information received from clients or clients' other professional advisors but will instead rely upon the accuracy and completeness of the information provided in performing services for clients.

## **Item 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **A. Code of Ethics.**

FCAM has adopted a written Code of Ethics under which certain employees are generally restricted from effecting certain transactions in securities for their personal accounts in order to seek to avoid conflicts of interest with transactions being effected in client accounts. However, FCAM employees may buy or sell the same mutual funds and ETFs that FCAM uses in the Model Portfolios. This presents a conflict of interest between FCAM's employees' own financial interest and the best interest of its clients.

- To prevent conflicts of interest, FCAM has developed written supervisory procedures that include personal investment and trading policies for our representatives, employees and their immediate family members (collectively, related persons):
- Related persons cannot prefer their own interests to that of the client.
- Related persons cannot purchase or sell any security for their personal accounts prior to implementing transactions for client accounts.
- Related persons cannot buy or sell securities for their personal accounts when those decisions are based on information obtained as a result of their employment, unless that information is also available to the investing public upon reasonable inquiry.
- Related persons are prohibited from purchasing or selling securities of companies in which any client is deemed an "insider".
- Related persons are discouraged from conducting frequent personal trading.
- Related persons are generally prohibited from serving as board members of publicly traded companies unless an exception has been granted by the Chief Compliance Officer of FCAM.

Any related person not observing these policies is subject to sanctions up to and including termination.

FCAM will provide a copy of its Code of Ethics to any client or prospective client upon request.

### **B. Conflicts of Interest.**

#### **1. *Third-Party Incentives.***

FCIS could receive third-party payments with respect to mutual funds. Mutual funds pay FCIS the following types of third-party payments:

- 12b-1 distribution fees; and/or
- Fees for sub-accounting services, sub-transfer agency services, and/or other revenue sharing or similar payments for services to the funds.

The amount of these third-party payments varies between different fund families, different funds and different share classes. FCAM generally receives less compensation when 12b-1 fees are reduced or waived completely, or when there is no fee. FCAM has in the past earned and kept these fees. In some years, the amount of these fees has been material to FCAM. In the past, FCAM has credited these fees to some advisory clients' accounts but not others. In an effort to reduce client costs, minimize the conflicts of interest presented by mutual fund 12b-1 fees, and conform treatment of different types of FCAM client accounts, as of 3-11-2016, FCAM will, for all

advisory account clients on a going-forward basis, credit these fees to advisory clients' accounts. These credits will be subject to the advisory fee if they remain in a client account at the time of billing.

FCAM has a conflict of interest in recommending these funds or share classes, both in making investment decisions in light of the receipt of these fees and in selecting a more expensive 12b-1 fee paying share class when a lower-cost share class is available for the same fund. The conflict of interest arises from FCAM's financial incentive to recommend or select registered funds or share classes for clients that pay higher 12b-1 fees, because such registered funds or share classes generally result in higher compensation for FCAM.

Although there can be legitimate reasons that a particular client is invested in a more expensive 12b-1 fee paying share class, FCAM has taken steps to minimize the conflict of interest: through advisory account credits beginning on 3-11-2016; through disclosure in this Brochure; through internal policies and procedures that require investment advice to be appropriate for advisory clients; by ensuring that individual Advisers are not directly compensated for recommendations to purchase share classes of registered funds that pay such fees to FCAM; by restricting Advisers' recommendations to funds and share classes on FCAM's approved list; and by systematically evaluating when a lower fee share class of a registered fund on FCAM's approved list is available. It will not always be possible or in the client's best interest for FCAM to select SEC-registered mutual fund investments that do not pay these fees. Accordingly, despite the foregoing efforts to minimize conflicts of interest, FCAM clients should not assume that they will be invested in the registered fund or share class with the lowest possible 12b-1 fees.

Third party providers, including, investment managers and ETF wholesalers, may also give financial advisors gifts up to a total value of \$100 per provider per year, consistent with industry regulations. Third parties may occasionally provide FCAM Investment Adviser Representatives with meals and entertainment of reasonable value. These incentives create a conflict and may cause the FCAM employees to recommend those product partners that provide these noncash incentives. The noncash incentives are monitored and reviewed quarterly by supervisor to ensure alignment with policies.

## ***2. Training and Marketing Incentives.***

Third-party providers such as investment managers and ETF wholesalers may reimburse and/or pay certain expenses to FCAM, including expenses related to training, marketing, and educational efforts. These incentives create a conflict and may cause FCAM to recommend those product partners that provide marketing and educational opportunities and to whom the FCAM Investment Adviser Representative has greater access.

### **C. Retail**

#### ***1. Discounting.***

The FCAM Investment Adviser Representative has the ability to discount the fees the client pays on certain investments or programs. These discounts may create a conflict of interest between the client's interests and FCAM's because FCAM's compensation is negatively impacted when fees are discounted.

#### ***2. Distributions***

Compensation and incentives may cause a conflict between the client's interests and FCIS or FCAM when the FCAM Investment Adviser Representative provides recommendations for distributions from any of the client's IRAs. When the client makes a distribution from a brokerage IRA, certain commissions or sales charges may be generated. Further, if the client has both a transaction-based IRA and an advisory program IRA, the FCAM Investment Adviser Representative may be incented to advise the client to take a distribution from the client's transaction-based IRA and not the client's advisory program IRA because the distribution would generate additional transactional revenue and would not affect the amount of the client's asset-based fee in the client's advisory program IRA.

### ***3. Performance Standards and Incentive Compensation for the Adviser.***

The FCAM Investment Adviser Representative's performance can be measured in various ways and performance measurements are positively impacted by the assets under care. These positive impacts in performance measures can lead to increased compensation. This incentive creates a conflict between the client's interests and those of the FCAM Investment Adviser Representatives when recommending that the client rollover or transfer the client's assets to FCAM, keep the client's assets at FCAM, and engage in transactions within the client's account.

### ***4. Licensing of FCAM Investment Adviser Representatives.***

Not all FCAM Investment Adviser Representatives are licensed to offer both brokerage and investment advisory products and services. Some FCAM Investment Adviser Representatives may only be licensed to make a recommendation regarding investment company (i.e., mutual funds) or variable contract products (i.e., variable annuities) and may not be licensed to make a recommendation for individual equities or fixed income products (i.e., stocks and bonds) or provide investment advisory products or services. Because of the differences in compensation payable with respect to these products, this could be seen as creating a conflict for the FCAM Investment Adviser Representative.

### ***5. Rollovers.***

When the client invests with FCIS as a result of a recommendation to rollover or transfer the client's assets from an employer-sponsored plan, another brokerage firm or investment adviser, FCIS and FCAM receive compensation. This compensation creates a potential conflict between the client's interests and FCIS and FCAM because their compensation is based, in part, on the assets placed with FCIS and FCAM. In addition, in a rollover from an employer-sponsored plan, a conflict exists because the compensation received by FCIS and FCAM and the FCAM Investment Adviser Representatives will generally be greater than that received in the plan.

## **Item 12. BROKERAGE PRACTICES**

### **A. Sub-Advisory Services.**

Accounts established through FCIS will be held and cleared through a qualified custodian and broker-dealer selected by FCIS. Physical custody of funds and securities is maintained by a qualified custodian, not by FCIS or FCAM.

Please refer to the section on Fees and Compensation above for important information concerning FCAM's use of an affiliated brokerage firm, FCIS, to execute transactions on behalf of its clients. FCAM strives to serve the best interest of its clients. However, FCAM does not warrant or represent that commissions for transactions implemented through FCIS will be lower than commission costs incurred if clients were to use another brokerage firm although FCAM believes that the overall level of services and support provided to clients by FCAM outweighs the potentially lower transaction cost available through other unaffiliated brokerage arrangements.

Under the FCAM Sub-Advisory Program, FCIS has discretionary authority to hire/fire FCAM as a sub-adviser. This creates a conflict of interest because FCAM has an incentive to engage its affiliate FCIS as the broker dealer. You are under no obligation to utilize our affiliate's sponsored investment advisory platform or engage us as a sub-adviser. Please refer to the sections above on Advisory Business and on Fees and Compensation for important information on this arrangement. This creates a conflict of interest on our part by requiring that you execute transactions through the affiliated brokerage firm and we may be unable to achieve the best execution of your transactions which means that the execution costs you pay may be higher than they might be otherwise.

#### **B. Retail Services.**

Please refer to the section on Fees and Compensation above for important information concerning FCAM's use of an affiliated brokerage firm, FCIS, to execute transactions on behalf of its clients. FCAM strives to serve the best interest of its clients. However, FCAM does not warrant or represent that commissions for transactions implemented through FCIS will be lower than commission costs incurred if clients were to use another brokerage firm although FCAM believes that the overall level of services and support provided to clients by FCAM outweighs the potentially lower transaction cost available through other unaffiliated brokerage arrangements.

FCAM reviews the brokerage practices of FCIS and the reasonableness of compensation or other remuneration paid to FCIS in an effort to seek best execution of its clients' transactions on a monthly basis.

FCAM will require its clients execute transactions through its affiliated brokerage firm, FCIS. Not all investment advisory firms require their clients to do this. Please refer to the sections above on Advisory Business and on Fees and Compensation for important information on this arrangement. This creates a conflict of interest on our part by requiring that you execute transactions through the affiliated brokerage firm and we may be unable to achieve the best execution of your transactions which means that the execution costs you pay may be higher than could otherwise be.

#### **C. Aggregation of Purchase or Sale of Securities.**

Transactions implemented by FCAM for client accounts are generally effected independently, unless FCAM decides to purchase or sell the same securities for several clients at approximately the same time. This consolidation of orders is referred to as "aggregating orders" or "block trading" and is used by firms or sub-advisors if it is believed such action may prove favorable for the client. Under this procedure, transactions will be averaged as to price and will be allocated to the firm's clients in proportion to the purchase or sale orders placed for each client's account on any given day. When FCAM determines to aggregate client orders for the purchase or sale of securities, FCAM will do so in accordance with the parameters within SEC No-Action Letter,



SMC Capital Inc. FCAM does not receive any additional compensation or remuneration as a result of aggregating orders.

### **Item 13. REVIEW OF ACCOUNTS**

FCAM reviews accounts as follows:

#### **A. Sub-Advisory Services.**

FCAM continually monitors the Model Portfolios and updates them as it deems appropriate, generally quarterly. FCIS (and not FCAM) monitors the FCIS Clients' risk profiles to confirm that they are utilizing the appropriate Model Portfolio for each such client.

#### **B. Retail Services.**

Through FCAM's Investment Committee or its designees, FCAM makes a best effort to review each client account on at least an annual basis. Additional reviews may be triggered by events such as client deposits or withdrawals, significant changes in the value of the account, client requests for substitutions of SMA/UMA Managers or investment criteria, and updates in client information. FCAM instructs the Investment Committee, in performing each review, to address any issues of concern. FCAM does not monitor each transaction effected by SMA/UMA Managers for consistency with the client's investment objectives or conformance with the SMA/UMA Manager's stated strategies or philosophy. Client should understand that FCAM's limited review of a SMA/UMA Manager's transactions within a Manager Account is not a substitute for his/her continuing review of the SMA/UMA Manager's investments and performance. Performance reports are available on-demand or generated quarterly. These reports are for information only and do not replace the monthly or quarterly statement generated by the custodian.

### **Item 14. CLIENT REFERRALS AND OTHER COMPENSATION**

FCAM does not use third party solicitors for client referrals. Please refer to the sections on Fees and Compensation, Conflicts, and Brokerage Practices above for information on other economic benefits FCAM may receive for providing services.

### **Item 15. CUSTODY**

FCIS designates the custodian for the FCIS Clients' funds and securities. Currently, Pershing, located at One Pershing Plaza, Jersey City, NJ 07399, maintains custody of the assets of FCIS and FCAM clients. Pershing provides execution, clearance, and administrative services for Paramount Choice assets in its custody. All orders for purchases and sales of securities held or to be kept in custody by Pershing are placed through Pershing. As to those assets, Pershing maintains relevant books and records for FCAM, including books and records pertaining to individual client accounts. Client should carefully review each confirmation and/or statement and promptly notify his/her FCAM Investment Adviser Representative of any discrepancies in or concerns relevant to the investment subaccounts. Custody, as it applies to advisors, has been defined by regulators as having access or control over client funds and/or securities. In other words, custody is not limited to physically holding client funds and securities. If an advisor has the ability to access or control client funds or securities, the advisor is deemed to have custody and must ensure proper procedures are implemented.

FCAM will not hold client accounts, handle physical certificates, or deposit client funds; FCAM has established procedures to ensure all client funds and securities are held at a qualified custodian in a separate account for each client under that client's name. Clients or an independent representative of the client will direct, in writing, the establishment of all accounts and therefore are aware of the qualified custodian's name, address and the manner in which the funds or securities are maintained. Finally, account statements are delivered directly from the qualified custodian to each client, or the client's independent representative, at least quarterly. Clients should carefully review those statements and are urged to compare the statements against reports received from FCAM. When clients have questions about their account statements, they should contact FCAM or the qualified custodian preparing the statement.

## **Item 16. INVESTMENT DISCRETION**

### **A. Sub-Advisory Services.**

FCAM will have the power and authority to manage the Model Portfolios as described in Item 4. The allocations in the Model Portfolios may automatically be used in FCIS Client accounts over which FCIS has discretion.

### **B. Retail Services.**

- "WRAP Program" - FCAM has investment discretion over the WRAP Program portfolios and may modify any WRAP Program account holdings at any time. FCAM exercises that discretion through its Investment Committee.
- "SMA Program" - FCAM has the discretion to hire and fire the SMA Managers. The SMA Managers exercise discretion, directing the investment and reinvestment of client assets held in the account.
- "UMA Program" - FCAM has investment discretion to hire and fire the UMA Managers. The UMA Managers exercise discretion, directing the investment and reinvestment of client assets held in the account. The FCAM Investment Adviser Representative may not exercise discretion. The FCAM Investment Adviser Representative and client on a non-discretionary basis will determine investments and reinvestments. The investments and reinvestments of assets are based upon Client's Investor Profile, Investment Policy Statement and any other relevant information provided by Client, including any reasonable restrictions imposed by Client.

## **Item 17. VOTING CLIENT SECURITIES (PROXY VOTING)**

FCAM will not vote proxies or advise client on proxies (or similar solicitations concerning corporate actions) for the securities held in an account managed by FCAM. As between client and FCAM, the client retains the right and responsibility to vote proxies and to review related materials on securities held in the account, or to delegate that function to some other person or entity. As to securities in the account over which FCAM has discretionary authority, the custodian will forward to the client any information received relevant to proxies, voting or other corporate actions.

**Item 18. FINANCIAL INFORMATION**

FCAM does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. FCAM is not subject to a financial condition reasonably likely to impair its ability to meet contractual commitments. FCAM has not been the subject of a bankruptcy petition at any time.