



## Item 1 – Cover Page

### **Firm Brochure** Part 2A of Securities and Exchange Commission FORM ADV

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Empirical Wealth Management  
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March 29, 2019

This brochure (“Brochure”) provides information about the qualifications and business practices of Empirical Financial Services, LLC d/b/a Empirical Wealth Management (“Empirical”). If you have any questions about the contents of this Brochure, please contact us at (206) 923-3474 and/or via email at [compliance@empirical.net](mailto:compliance@empirical.net). 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.

Empirical is an SEC-registered investment adviser (“Adviser”). Registration of an Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

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

## Item 2 – Material Changes

We update this document annually, or more frequently in the event of certain material changes. This section outlines and summarizes the specific changes made since the annual amendment filing dated March 30, 2018.

- Empirical began offering non-discretionary investment advisory services effective March 29, 2019.
- Empirical opened an office location in Irvine, CA effective July 1, 2018.
- Empirical opened an office location in San Francisco, CA effective May 1, 2018.
- Empirical closed its office location in Friday Harbor, WA effective October 31, 2018.
- Empirical dissolved its wholly-owned subsidiary, Pyramid San Juan Islands, PLLC, on December 28, 2018.
- Simon Liu became a partner of Empirical effective December 31, 2018.
- Shan Zubair became a partner of Empirical effective December 31, 2018.
- James Jones II became a partner of Empirical effective December 31, 2018.
- Hwa Park is no longer a partner of Empirical effective December 31, 2018.

This section covers only material changes. Other amendments may have been made to this Brochure, which may not have been discussed in our summary, and consequently, we encourage you to read this Brochure in its entirety. You may request a full copy of the latest version of this document at any time by emailing the compliance department at [compliance@empirical.net](mailto:compliance@empirical.net) or by phone at 206-923-3474.

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#### **Item 4 – Advisory Business**

Kenneth Smith started Empirical Financial Services, LLC (“EFS”) in December 2009. The company is a spin-off from Empirical Wealth Management, an Oregon limited liability company that Mr. Smith was a founding member of in 2006. On December 31, 2012, EFS purchased Empirical Wealth Management, LLC from its remaining original members, re-merging both companies as a Washington limited liability company under the name of Empirical Financial Services, LLC d/b/a Empirical Wealth Management. Kenneth Smith is the principal owner. Ethan Broga, Lorne Enquist, Michael Kelly, Shan Zubair, James Jones, and Simon Liu are minority owners.

#### **Investment Advisory Services**

Empirical provides fee-based, discretionary and non-discretionary investment management services. Empirical also sponsors and provides portfolio management services for a wrap fee program that allows eligible client accounts to be charged a single fee that is comprehensive. We do not manage wrap-fee accounts in a different fashion than fee-base accounts, except in the case where a client has chosen a performance-based fee arrangement. As a portfolio manager to a wrap-fee program, we will receive a portion of the wrap fee for our services.

Empirical also manages one private fund, Empirical Alternative Income Fund, LP, that qualifies for the exclusion from the definition of investment company under section 3(c)(1) of the Investment Company Act of 1940, as well as one venture capital fund, Empirical Venture Capital Fund, LP, which seeks to achieve long-term high capital growth through investing in local startup companies in the artificial intelligence space.

Advisory services encompass a wide range of investment goals and risk tolerances, from conservative to aggressive, giving you and your advisor the flexibility to design a portfolio and asset allocation that meets your specific investment needs. We begin by offering a comprehensive financial plan that helps us create a picture of your financial condition as well as learn about your personal financial goals. The plan also acts as a tool that helps you clarify your investment and life objectives. Out of this plan and with your input, an investment strategy and asset allocation decisions are agreed upon.

You can impose reasonable restrictions, in writing, on investing in certain securities or types of securities. Account restrictions are generally, but not always, for tax purposes in situations where you may incur a large amount of taxable gain from the sale of your positions. We do not accept responsibility for non-standard positions inside your account, either brought in or bought at your instructions, but not generally purchased in client portfolios as part of our investment portfolio. We will allow these positions to be held in your managed account and may charge fees for such, but will not be held responsible for their performance or monitoring.

We may, on occasion, recommend that all or a portion of the assets in your account be managed by an outside investment manager or sub-adviser. Sub-advisory fees are paid by us from our advisory fees and will not result in increased fees to you. In all discretionary accounts, except to the extent that you direct otherwise, we are authorized to use our discretion in selecting or changing a sub-adviser and/or outside money manager of the account without prior approval from you. You may be required to execute a limited power of attorney with a sub-adviser selected by us.

**Financial Planning Services**

We offer financial planning services to our clients and occasionally we engage in stand-alone financial planning services to non-advisory clients. Financial planning reviews a client's overall financial situation to help the client understand his/her overall financial situation and to set financial objectives. Financial planning helps individuals determine and set their long-term financial goals and may include, but is not limited to, reviewing investments, tax planning, asset allocation, insurance and risk management, retirement planning, estate and gift planning, executive coaching and other areas. We will meet with potential financial planning clients in advance of beginning preparation of a plan to determine the amount to be billed. Generally, a financial planning contract will be signed before services commence.

You may not wish to engage in the financial planning portion of our services, but for qualified advisory clients these services may be available to you as part of your quarterly investment advisory fee. In the event that your planning service requires what Empirical may consider extraordinary planning services, you may be charged for such extraordinary planning services. What constitutes extraordinary planning will be determined on a case-by-case basis.

In engaging in financial planning services, we do not serve as an attorney, accountant or insurance agent and no portion of our services should be construed as such. Accordingly, we do not prepare estate plan documents or tax returns and we do not sell insurance products. Should you request these services, we may refer you to our wholly-owned subsidiaries and/or affiliate. You are never obligated or required to use their services.

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For executive consulting advisory clients, generally these services are available to you as part of your quarterly fee to Empirical so long as you maintain at least \$1 million in assets under management; if you do not maintain at least \$1 million in assets under management, you will pay either a quarterly or annual fee in addition to investment advisory fees.

### **Tax Preparation Assistance**

Empirical, through its wholly-owned subsidiary, Empirical Tax Services, LLC ("Empirical Tax"), offers tax preparation services to both advisory and non-advisory clients. Empirical Tax charges a separate fee (fixed or hourly) for tax preparation services, depending upon the scope and complexity of the services required. Generally, it is Empirical Tax's policy to offer clients of Empirical with assets under management above \$1,000,000 a discount on tax preparation services. This discount may result in tax preparation services being provided at no additional cost above your Empirical management fee.

For some individual tax returns, Empirical Tax partners with SurePrep, LLC, which provides both offshore (outside the United States) and onshore (inside the United States) preparation assistance. Information shared with SurePrep, LLC is transferred using a secure electronic network.

Empirical's recommendation to use tax planning and preparation services provided by Empirical Tax Services, LLC may cause a conflict of interest. However, Empirical employees are bound by the firm's code of ethics that requires that, as fiduciaries, all supervised persons place the best interests of their clients above their own personal interests. These services are offered as part of our goal to provide comprehensive wealth management, but you are not obligated to use them.

### **Pension Consulting Services**

We have a service for outside account aggregation. If you would like us to link to and make recommendations for your outside account(s) you may sign up for our aggregation service which utilizes ByAllAccounts, Inc. services. This will allow us to have a complete view of your linked outside holdings. We will offer advice and recommendations on the outside accounts, but it will be your sole responsibility to implement allocation recommendations in these outside accounts. Should you choose to allow us to view, make recommendations and *monitor* outside accounts, you may be charged a fee, which will be deducted from your managed account. Fees will not be deducted directly from outside accounts.

### **Estate Planning Services**

Empirical refers clients with estate-planning needs to its affiliate, Empirical Legal Services, PLLC ("Empirical Legal"). Empirical Legal's services include, but are not limited to, the preparation of wills, trusts, advance directives (i.e., living wills) of other health-care documents related to incapacity planning, and durable power of attorney for financial management and for individuals and married couples.

Empirical does not serve as an attorney and no portion of our services should be construed as offering legal services. Empirical does not prepare estate planning documents or offer legal advice.

Empirical's recommendation to use estate planning services provided by Empirical Legal may cause a conflict of interest. However, Empirical employees are bound by the firm's code of ethics that requires that, as fiduciaries, all supervised persons place the best interests of their clients above their own

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personal interests. These services are offered as part of our goal to provide comprehensive wealth management, but you are not obligated to use them.

### **Insurance Assistance**

Empirical, through its wholly-owned subsidiary, Empirical Insurance Services, LLC (“Empirical Insurance”), offers insurance-planning services specifically designed to address the life, disability, and long-term care insurance needs of our clients. Empirical Insurance partners with Highland Capital Brokerage, who has a knowledgeable team dedicated to, among other things, carrier and product expertise, underwriting negotiation, and back office processing. Empirical Insurance can review current coverage in the context of a client’s financial plan, discuss risks insurance could help cover, and guide clients through the process of obtaining coverage. Empirical Insurance has access to many different insurance carriers, which allows them to compare the financial strengths, costs, and product benefits of these firms.

As of February 12, 2019, Empirical manages \$ 1,978,451,142.43 on a discretionary basis and \$0 on a non-discretionary basis.

## **Item 5 – Fees and Compensation**

### **Investment Advisory Services**

Clients who are not participating in our wrap fee program will be charged transaction fees and commissions by the custodian in addition to the management fees charged by Empirical; clients participating in the wrap fee program will be charged a single, comprehensive fee which may include, but is not limited to, portfolio management, custodial and brokerage services, among other services. In addition to Empirical’s fee, clients are also subject to the fees outlined in the Other Fees section of this brochure. All fees are negotiable. We may unilaterally modify these terms at our discretion or upon execution of a new contract. There is generally a minimum annual fee of \$10,000, which may be waived at the advisor’s discretion.

### **Fee-Based Investment Advisory Clients**

Below is our general fee schedule. However, note that the specific way we charge fees is established in your written agreement with us. In consideration of our services hereunder, you will pay us a fee quarterly. Lower fees for comparable services may be available from other sources.

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Assets	Portfolio Annual Fee*
First \$2,000,000	1.00%
\$2,000,001 - \$5,000,000	.80%
\$5,000,001 - \$10,000,000	.70%
\$10,000,000 - \$20,000,000	.50%
Above \$20,000,000	.30%

\*Annual Fee is charged over a four (4) quarter period (example:  $1.00\%/4 = .25\%$  per quarter)

Although some clients will pay different fees based upon their contract fee schedules, we will not treat higher paying clients more favorably. Fees are due and payable on the first day of each calendar quarter and are generally deducted directly from your accounts.

New clients will be billed quarterly in arrears using an average daily balance calculation. Existing clients, currently billed quarterly in advance, will be transitioned to the average daily balance computation over time. The fee for those clients paying quarterly in advance will be calculated using the fee schedule listed above, multiplied by the market value of the account on the last day of the quarter. The fee for clients under the average daily balance fee schedule is calculated by using the fee schedule above, multiplied by the average market value of the account during the preceding quarter and is billed in arrears.

If you are billed in advance, fees for partial quarters, at the commencement or termination of your advisory agreement, will be prorated based on the number of days the account was funded during the quarter. Significant contributions and/or withdrawals of \$100,000 or more, taking place within the first ten (10) weeks of the calendar quarter will also be rebated or billed on the above pro-rated basis. Margin debt is considered managed and will not be excluded from billing or offered billing rebates.

You may withdraw or terminate the relationship at any time by submitting a request to disassociate to either us or the custodian in writing. Termination will be considered effective immediately and prorated fees will be refunded within fourteen (14) days if paid in advance. If your fee is calculated using average daily balance, you will be directly billed before being delinked, or invoiced with payment due immediately upon receipt, for any balance due and owing. Termination will not affect (1) any action taken by us prior to the termination; (2) liabilities or obligations of the parties from transactions initiated prior to the termination; or (3) your obligation to pay termination and transfer fees assessed by and paid to the custodian, if any.

For our fee-based investment advisory clients, we receive fees based on assets under management, however, other fees may be required from other companies, including, but not limited to, custodians, brokers or investment products, involved with the assets or trading of assets. These fees are your responsibility and are separate and in addition to our management fees. For more information on these fees, see the Other Fees section below. We endeavor to use investment products with the most competitive internal expenses within their asset class and custodians with competitive pricing and services.



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The fees that may be paid directly from your account include, but are not limited to:

- Mutual funds and index fund internal expenses
- Margin interest
- Wire transfer fees
- Custodial fees for holding non-standard assets (i.e. alternative investments)
- Brokerage commissions
- Custodial fees
- Services charges
- Any account transfer, closing or administrative charges or fees imposed by a previous custodian or broker-dealer
- Stock transfer fees

### **Wrap-Fee Program Investment Advisory Clients**

Clients in the wrap fee program will pay a comprehensive fee, for which the schedule, billing practices and termination procedures are identical to that for fee-based clients. The wrap-fee program covers portfolio management, brokerage execution costs (without regard to the number of transactions executed during the billing period) and custodial services. Empirical has negotiated fees with Charles Schwab & Co., Inc. ("Schwab"), a FINRA /SIPC/NFA qualified custodian who provides us custody, clearing, and execution services.

The fees that may be paid directly from your account include, but are not limited to:

- Mutual funds and index fund internal expenses
- Margin interest
- Wire transfer fees
- Custodial fees for holding non-standard assets (i.e. alternative investments)
- Fees for trades executed away from custodian
- Services charges
- Any account transfer, closing or administrative charges or fees imposed by a previous custodian or broker-dealer
- Stock transfer fees

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Empirical may negotiate a reduction in fees or other costs on services provided by third-party service providers based on size, volume or other factors. Because the cost to the client of these services is included in the wrap fee, any negotiation of lower costs to Empirical will not be reflected in the client's costs.

### **Other Fees Charged**

Additional fees not charged by Empirical may apply to both or either fee-based and wrap-fee program clients. These fees are your responsibility and are separate and in addition to Empirical's fees. These may include, but are not limited to: custodial fees (for fee-based clients), brokers (for fee-based clients), debit balances, related margin interest, IRA and retirement plan fees, transfer fees, SEC fees, fees embedded in money market funds or mutual funds, wire transfer fees, overnight check fees, account closing fees, paper statement delivery fees, non-standard asset fees, insufficient fund fees, returned check fees, transaction charges for fund level asset allocation model trades, expenses charged by the mutual funds (including management fees, transaction charges incurred for fund-level asset allocation model trades, custody of fund assets and other fund expenses), expenses charged by the variable annuities and exchange-traded funds, or other fees or taxes that are required by law. Empirical may from time to time, at its sole discretion, reimburse clients for certain fees or charges that are not due to the client's error. Underlying fees can vary between investments and are generally deducted directly from invested assets. Further information on these fees can be found in the prospectuses of the underlying funds.

We endeavor to use investment products with the most competitive internal expenses within their asset class and custodians with competitive pricing and services. Item 12 further describes the factors that we consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

With regard to Empirical Alternative Income Fund, LP, a management fee of 1.5% is to be paid quarterly in advance on the first business day of each calendar quarter, and each limited partner's proportionate share of the management fee shall be deducted from such limited partner's capital account. For existing wealth management clients, any assets in the Empirical Alternative Income Fund, LP will be excluded from that client's wealth management fee.

With regard to Empirical Venture Capital Fund, LP, a management fee of 2% is to be paid quarterly in advance on the first business day of each calendar quarter, and each limited partner's proportionate share of the management fee shall be deducted from such limited partner's capital account. Once the limited partners have received distributions of 100% of their capital contributions, then 80% of future distributions will be delivered to the limited partners, with the remaining 20% accruing to the investment manager (i.e., Empirical). For existing wealth management clients, any assets in the Empirical Venture Capital Fund, LP will be excluded from that client's wealth management fee.

### **Financial Planning Services**

For most advisory clients, financial planning services are included as part of the quarterly investment advisory fee; however, in the event your service requires extraordinary planning, you may be charged for such additional services. What constitutes extraordinary planning will be determined on a case-by-case basis. The cost will be determined by the facts and circumstances of the work requested and will be communicated before work commences. For advisory clients whom receive executive consulting financial planning services, the services will be included in the client's quarterly investment advisory fee, generally so long as the client has at least \$1 million in assets under management. If the client does not have at least \$1 million in assets under management, the client will pay either a quarterly or annual fee in addition to investment advisory fees. The cost of this fee will be determined by the facts and circumstances of the work requested and will be communicated before work commences.

For non-advisory clients who would like to engage in stand-alone financial planning (with the exception of executive consulting clients), the fees are paid on an hourly or fixed fee basis. Hourly rates are generally \$300 per hour, while fixed fees may range from about \$500 to \$10,000, depending on the complexity of the plan.

### **Tax Preparation Assistance**

Empirical Tax charges a separate fee (fixed or hourly) for tax preparation services, depending upon the scope and complexity of the services required. Generally, it is Empirical Tax's policy to offer clients with assets under management at Empirical above \$1,000,000 a discount on tax preparation services. This discount may result in tax preparation services being provided at no additional cost above your management fee.

### **Pension Consulting Services**

Clients who chose to link and make recommendations for outside account(s) will not be charged a fee, for this service, so long as our role is limited to offering advice and recommendations and the client maintains sole responsibility for implementing allocation recommendations. Should you choose to allow us to view, make recommendations and *monitor* outside accounts, you may be charged a fee, which will be deducted from your managed account. Fees will not be deducted directly from outside accounts.

### **Estate Planning Services**

For more information regarding Empirical Legal's services, please contact Paul Ohainle at [pohainle@empirical.legal](mailto:pohainle@empirical.legal).

### **Insurance Assistance**

Empirical Insurance does not charge any direct fees to its clients for the services it provides. Rather, Empirical Insurance is paid a commission upon the sale of a product that varies depending on the product sold.

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

In some cases, we enter into performance-based fee arrangements with qualified clients ("Qualified Clients"). This includes some discretionary clients as well as all of our non-discretionary clients. Such fees are subject to individualized negotiation with each such client. A Qualified Client is generally defined by Rule 205-3 of the Investment Advisers Act of 1940, as amended ("Advisers Act") as a natural

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person or company who has at least \$1,000,000 under management or has a net worth of at least \$2,000,000. We generally recommend that a Qualified Client has a minimum of \$2,000,000 assets under management with Empirical to enter into the performance-based fee arrangement.

We will structure any performance-based fee arrangement subject to Section 205(a)(1) of the Advisers Act in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. The performance-based fee would be a given percentage of any return earned in the account(s) over the previous quarter, net of the asset-based fee, and is billed in arrears. The fees collected would generally be based on the schedule listed below:

Assets	Asset-Based Fee	Performance-Based Fee
First \$2,000,000	0.25%	10%
\$2,000,001 - \$5,000,000	0.20%	10%
\$5,000,001 - \$10,000,000	0.15%	10%
Above \$10,000,000	0.10%	10%

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Empirical's investment management fee shall be payable quarterly, in arrears, and deducted directly from the account. For the purpose of calculating the fee, the beginning value of the account shall be the account value as of the 1st of each calendar quarter (or the date on which the account is initially established) and the ending value of the account shall be the account value as of the close of business on the last day of each calendar quarter (or the date prior on which the account is terminated or on which there are withdrawals), after giving effect to account contributions and withdrawals to be determined on a quarterly basis. In calculating the annual fee, Empirical shall be required to first make-up account losses that may have been incurred during any previous month. Unless the investment advisory agreement is terminated prior to the last day of a calendar quarter (or on the date that there are account withdrawals), the fee (or that portion associated with any withdrawal) shall be paid as soon thereafter as Empirical is able to calculate the amount of the fee, if any. If the investment advisory agreement terminated prior to the last day of any calendar quarter (or there are any interim withdrawals), the fee shall be immediately calculated and paid based upon the increase in market value of the account as of the termination date or withdrawal date. All accounts may be subject to the "Other Fees Charged" described in Item 5 above.

Return is defined as appreciation in the value of the portfolio over the previous quarter's close and is adjusted for any contributions to or withdrawals from the account. Appreciation includes all dividends, interest or capital gains (realized and unrealized) over the billing quarter. The calculation of return does not include money deposited into or withdrawn from the account. The performance fee allocation is subject to a "high water mark" provision, such that no performance-based fee will be paid to us, except to the extent that the amount of the capital increase exceeds the sum of any cumulative loss in the account as well subject to adjustment for withdrawals, contributions and the asset-based fee. Performance-based fee will be charged on the return net of the asset-based fee. If the account is below the high-water mark, Empirical will still charge the asset-based fee on the account.

Performance-based fee arrangements may create an incentive for us to recommend investments that may be riskier or more speculative than those which would be recommended under an asset-based fee arrangement. Such fee arrangements also create an incentive to favor higher fee-paying accounts over other accounts in the allocation of investment opportunities. We have procedures designed and implemented so that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients. Namely, our code of ethics requires that, as fiduciaries, all supervised persons place the best interests of their clients above their own personal interests.

### Item 7 – Types of Clients

We may provide investment advice to:

- Individuals
- High net worth individuals
- Pensions and profit sharing plans
- Charitable organizations
- Corporations or business entities
- Trusts
- Estates

We generally require a minimum investment level for our clients of \$1,000,000.00, although it is at our

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discretion to waive the minimum investment level and the minimum fee.

The Alternative Income Fund and Venture Capital Fund limit their offerings to accredited investors. Under Rule 501 of Regulation D ("Rule 501"), an individual is an accredited investor if he or she: (i) has a net worth (along with his or her spouse) that exceeds \$1,000,000 (excluding the value of his or her primary residence); or (ii) income in excess of \$200,000 (or joint income in excess of \$300,000 with spouse) in each of the two most recent years with a reasonable expectation of reaching the same income level in the current year. An entity is an accredited investor if it: (i) is owned exclusively by accredited investors; or (ii) is not formed for the specific purpose of acquiring the interest in the fund and has total assets in excess of \$5,000,000. Generally, investors are allowed to self-certify as accredited investors, and a private fund manager will be permitted to rely on an investor's representation that he or she meets the requirements without any further documentation.

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

Our investment philosophy is based upon Modern Portfolio Theory ("MPT"). MPT states that assets should be selected based on how they interact with one another, rather than how they perform in isolation. Capital markets are composed of many classes of securities, including stocks and bonds, both domestic and international. A group of securities with shared economic traits is commonly referred to as an asset class. There are several asset classes, all with average price movements that are distinct from one another. Per MPT, investors can benefit by combining the different asset classes in a structured portfolio.

We typically incorporate 12-21 distinct asset classes when building portfolios. When determining which asset classes to use in our model portfolios, we incorporate correlation research conducted by Eugene Fama and Kenneth French dating back to the Great Depression. Our goal is to choose investments that offer good asset class diversification at a low price. We determine the amount to allocate to each asset class based upon each asset class' risk characteristics and the investment goal of the model portfolio. We invest in mutual funds and exchange traded funds ("ETFs") chosen based upon their diversification characteristics, internal expenses and tax efficiency. We often choose institutional funds (investments available only through an investment adviser) and investments that fall in the lowest quartile of expenses for their category. We include in our analysis a multitude of security types including, but not limited to:

- Equities
- Corporate debt
- Commercial papers
- Municipal securities
- Investment company securities
- United States government securities
- Options contracts
- Futures contracts
- Partnership and others (including limited partnerships and third-party money managers)

We do not generally recommend all these options, but may recommend some of the above to you depending on your unique situation and current market conditions.

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Some resources we use include, but are not limited to, fundamental data, cyclical data, research materials prepared by other corporate rating services, annual reports, prospectuses, filings with the SEC, company press releases, financial newspapers and magazines, academic journals and articles as well as historical return information as sources of information and methods of analysis.

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The investment strategies we may use to implement investment advice given to you include, but are not limited to: long-term purchases, short-term purchases, trading (securities sold within about 30 days), short sales, margin transactions and options writing. If your investment strategy involves frequent trading, you must be aware that frequent trading may affect investment performance, particularly through increased brokerage and other transaction costs and taxes. Investing in all securities involves the risk of loss, however, options writing and margin transactions particularly can result in increased risk to your portfolio.

We will use our best judgment and good faith effort in rendering services to you. However, investing in securities involves a risk of loss that clients must be prepared to bear. We cannot warrant or guarantee any particular level of account performances, or that an account will be profitable over time. Investment recommendations are subject to various risks including but not limited to market, currency, economic, and political conditions. Not every investment decision or recommendation made by us will be profitable.

You assume all market risk involved in the investment of account assets and understand that investment decisions made for the account are subject to various market, currency, economic, political and business risks. Other risks involved in our investment strategy include, but are not limited to, the following:

- Equities: market risk, small premium risk, value premium risk, foreign currency risk, country risk, emerging markets risk, real estate risk, tracking error risk, liquidity risk
- Commodities: issuer risk, commodities risk, futures risk, liquidity risk
- Fixed Income: interest rate risk, reinvestment risk, corporate risk, municipal credit risk, inflation risk, tracking error risk, liquidity risk
- Options hedging: options risk, liquidity risk

Specifics regarding these risks are enumerated below:

### Market Risk

Market risk is the possibility of an investor experiencing losses due to factors that affect the overall performance of the financial markets in which he or she is involved. Market risk, also called "systematic risk," cannot be eliminated through diversification, though it can be hedged against.

### Small Premium Risk

Small companies have fewer resources than large companies, and are thus likely to be riskier investments.

### Value Premium Risk

In investing, value premium refers to the greater risk-adjusted return of value stocks over growth stocks. Eugene Fama and K. G. French first identified the premium in 1992, using a measure they called HML (high book-to-market ratio minus low book-to-market ratio) to measure equity returns based on valuation.

### Foreign 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.



### Country Risk

Country risk premium ("CRP") is the additional risk associated with investing in an international company, rather than the domestic market. Macroeconomic factors, such as political instability, volatile exchange rates, and political turmoil can all cause investors to be wary of overseas investment opportunities. For these reasons many such international opportunities require a premium for investing. The CRP is higher for developing markets than for developed nations.

### Emerging Markets Risk

Emerging markets often seem to provide new investment opportunities, their elevated economic growth rates offering higher expected returns – not to mention the benefits of diversification. However, there are a number of risks associated: Foreign currency can fluctuate, which can create unpredictable profits and losses. Emerging market securities cannot be valued using the same type of mean-variance analysis as they do not often follow a pattern of normal distributions. Although most countries claim to enforce strict laws against insider trading, none have proved to be as rigorous as the U.S. in terms of prosecuting these practices. Insider trading and various forms of market manipulation introduce market inefficiencies, whereby equity prices will significantly deviate from their intrinsic value. Emerging markets sometimes have weaker corporate governance systems, whereby management, or even the government, has a greater voice in the firm than shareholders. Furthermore, when countries have restrictions on corporate takeovers, management does not have the same level of incentive to perform in order to maintain job security. A poor system of checks and balances and weaker accounting audit procedures increase the chance of corporate bankruptcy. Political risk refers to uncertainty regarding adverse government actions and decisions. Developed nations tend to follow a free market discipline of low government intervention, whereas emerging market businesses are often privatized upon demand.

### Real Estate Risk

Real estate funds tend to be more volatile than broader-based growth or income funds. As with any other sector, investors can generally expect to be hit hard in these funds when the real estate market collapses and should keep a long-term perspective when allocating funds to this sector.

### Tracking Error Risk

Tracking error is the divergence between the price behavior of a position or a portfolio and the price behavior of a benchmark. This is often in the context of a hedge or mutual fund that did not work as effectively as intended, creating an unexpected profit or loss instead. Tracking error is reported as a standard deviation percentage difference, which reports the difference between the return an investor receives and that of the benchmark he was attempting to imitate.

### Liquidity Risk

Liquidity risk is the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss. With liquidity risk, typically reflected in unusually wide bid-ask spreads or large price movements, the rule of thumb is that the smaller the size of the security or its issuer, the larger the liquidity risk.

### Issuer Risk

Essentially, the investor is lending the issuer funds, which are repayable when the bond matures or the stock is sold. As a result, the issuer is also considered to be a borrower, and the investor should carefully examine the borrower's risk of default before buying the security or lending funds to the issuer.

### Commodities Risk

Commodity price risk is the uncertainty that stems from changing prices that adversely impacts the financial results of those who both use and produce that commodity. For example, as the price of steel

risks this increases the cost of automobile production and can negatively impact that producer's profit

margins. Commodity production inputs include raw materials like cotton, corn, wheat, oil, sugar, soybeans, copper, aluminum and steel.

#### Futures Risk

The U.S. Treasury bond futures contract is one of the most heavily traded investment assets in the world. As with any similar investment, such as stocks, the price of a futures contract may go up or down. Like equity investments, they do carry more risk than guaranteed, fixed-income investments.

#### 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).

#### Reinvestments Risk

Reinvestment risk is the risk that future coupons from a bond will not be reinvested at the prevailing interest rate from when the bond was initially purchased. Reinvestment risk is more likely when interest rates are declining and affects the yield to maturity of a bond, which is calculated on the premise that all future coupon payments will be reinvested at the interest rate in effect when the bond was first purchased.

#### Corporate Risk

This risk assumes the project a company intends to pursue is not a single asset but incorporated with a company's other assets. As such, the risk of a project could be diversified away by the company's other assets. It is measured by the potential impact a project may have on the company's earnings.

#### Municipal Credit Risk

Municipal credit risk—or default risk—is the risk that interest and/or principal on the securities will not be paid on time and in full. Investors need to know who is responsible for repayment of the securities and the financial condition of that entity to assess the credit risk and decide whether to purchase the securities.

#### Inflation Risk

Inflation risk is also known as purchasing power risk; this risk arises from the decline in value of securities cash flow due to inflation, which is measured in terms of purchasing power. If you buy a bond with a coupon rate of 4%, and the inflation rate is at 2%, even though you are earning 4% on your money, inflation is chipping 2% of it away only leaving you with 2% of your money or purchase power, which you can use when you receive your payments. Only inflation protection bonds such as Treasury Inflation Protection Securities ("TIPS") offer protection against this risk. Floaters help reduce this risk because of the resetting of the interest rates. All other bonds expose the investor to this risk because the interest rate is fixed for the life of the bond.

#### Duration Risk

The primary measure of bond price volatility is duration. It takes into account both the length of time to maturity and the difference between the coupon rate and the yield to maturity. Here are some of the most important facts about duration: the longer the duration of a particular bond, the more its price will fluctuate in response to interest rate changes. Duration is always equal to or less than the years to maturity of the bond. Duration can help to calculate the impact of interest rate changes on the price of the bond. For example, a bond with a duration of 8 is likely to decrease 8% for every 100 basis points increase in market interest rates.

### Options Risk

Any investing carries a certain amount of risk. Options investing assumes greater risk, so you should make sure you understand the pros and cons of the strategies you are considering before you start actively trading. All options expire — most at zero value. Unlike stock investing, time is not your friend when you are holding long options. The closer an option gets to expiration, the faster the premium in the option deteriorates. Because options are highly leveraged investments, prices can move very quickly. Options prices, unlike stocks, can move by hefty amounts in minutes or seconds rather than hours or days. Much like shorting stocks, shorting options naked (i.e., selling options without hedging the position via other options or a stock holding) could lead to substantial and even unlimited losses.

Empirical's Targeted Premium Equity Portfolio strategy is designed to offer varying levels of exposure to investment asset classes such as emerging markets, global exposure to small companies, and global exposure to value companies. At times, targeted segments of the global investment market may be very volatile and may present additional risks.

Empirical's Targeted Credit Portfolio strategy is designed to offer varying levels of exposure to credit risks associated with investing in bonds that may include high yield or emerging markets debt. These bond asset classes will generally be more volatile than United States Treasury securities or a total bond market index, for example.

We do not recommend a particular type of security. Instead, we recommend a diversified portfolio of stocks, bonds and/or other investment vehicles. We select investments within the context of achieving adequate levels of diversification rather than any single specific security type.

The Empirical Alternative Income Fund, LP endeavors to target income-generating investments that provide cash flow on a monthly, quarterly, or annual basis. A preference will be given to investments with low correlation to stock and bond markets, and with low interest rate sensitivity. The Empirical Alternative Income Fund, LP will primarily focus on investment in income generating investments, including but not limited to bank loans, small business loans, consumer loans/finance, preferred stock, high yield bonds, master limited partnerships, reinsurance, life settlements, private equity, real estate, real estate debt, leases, infrastructure, royalties, litigation finance, and other specialty finance opportunities or income-producing assets.

The Empirical Venture Capital Fund, LP's objective is to seek attractive returns through investments in a diversified portfolio of startup and early-stage companies. The fund will primarily focus on early stage private companies with a focus on Artificial Intelligence ("AI") powered analytics across different traditional industries. The fund will access these investments through direct investments or co-investments. The fund is an early-seed fund that will focus on Northwestern United States based startups and entrepreneurs with deep domain expertise in traditional industries that are ripe for disruption with the current advancements in AI.

The following risks are associated with the Empirical Alternative Income Fund, LP, and the Empirical



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### The Partnership Has No Operating History and No Significant Assets

Empirical Venture Capital Fund, LP is a newly-organized entity with no history of operations or earnings. Furthermore, Empirical Venture Capital Fund, LP is relying solely on this offering for equity capital and has no other assets. Empirical Venture Capital Fund, LP's proposed operations are subject to all business risks associated with new enterprises. The likelihood of Empirical Venture Capital Fund, LP's success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with the formation and growth of a business. There is no assurance that the operations of Empirical Venture Capital Fund, LP will be profitable or that any investment in the interests will be recouped.

### Term of Investment

An investment in the partnership requires a specified, multi-year-term commitment with no certainty of a return of any portion of capital invested in the partnership. It is anticipated that there would be a significant period of time before the partnership has completed its investments in particular portfolio companies and each investment may not be liquidated for a substantial period of time after the initial purchase. Losses on unsuccessful investments may be realized before gains on successful investments are realized. Dispositions of such investments may require a lengthy time period. While it is the intention Empirical to achieve target returns over such period, other factors, such as overall market conditions, the performance of individual portfolio investments, the competitive environment and the availability of potential purchasers, may shorten or lengthen the partnerships. Therefore, it is unlikely that the partnership will realize substantial gains in its overall estimated partnership value during its early years.

### Risky and Illiquid Investments

The investments made by the fund will be risky and illiquid. Debt investments made by the portfolio investments may be unsecured and subordinated to substantial amounts of senior indebtedness. The investments may not be protected by financial covenants or limitations upon additional indebtedness. Illiquidity may result from the absence of an established market for the investments, as well as legal or contractual restrictions on their sale by the fund or the portfolio investments. The possibility of partial or total loss of capital will exist, and investors should not subscribe for interests in the fund unless they can readily bear the consequences of such loss. Even if the investments of the fund are successful, they may not produce a realized return to investors for a period of years.

### Financial Performance of Portfolio Investments

The fund will be dependent on the good legal standing and sound judgment of the management teams of the portfolio investments that we invest in, as well as other factors, that will determine the overall financial performance of the fund. The financial projections of our portfolio investments could be unattainable given many factors that the fund is unable to foresee or control. Our portfolio investments may have limited or no operating history in certain jurisdictions or at all.

### **Item 9 – Disciplinary Information**

Investment advisers registered with the SEC are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management. We have no information applicable to this item.

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

Several wholly-owned subsidiaries of Empirical have been developed so that the firm may meet its clients' various financial needs in-house. Empirical Tax was founded to address our clients' tax preparation needs in-house. Empirical Insurance was founded to address clients' insurance needs. Directional Financial Services, LLC ("Directional"), an SEC-registered investment adviser, is a wholly-owned subsidiary of Empirical. Directional was founded as a means to serve those clients who do not

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meet the minimum asset levels required by Empirical. Finally, Empirical Legal Services, PLLC which is not a wholly-owned subsidiary of Empirical but a separate, independent entity. Empirical refers clients with estate-planning needs to Empirical Legal Services, PLLC. These relationships may create a material conflict of interest; however, Empirical employees are bound by the firm's code of ethics that requires that, as fiduciaries, all supervised persons place the best interests of their clients above their own personal interests. These services are in place solely for the convenience of the client and to enhance the clients' overall experience. Clients are always free to use their own service providers.

Empirical has an employee, Elliott Appel, who is affiliated with Empirical Insurance, and is licensed to sell insurance in Washington State, Oregon State and Kansas State. We have another employee, Eric Kinyon, who is affiliated with Empirical Insurance, and is licensed to sell insurance in Washington State. Elliott and Eric are appointed with various unaffiliated, third-party insurance companies. Empirical Insurance receives a commission when insurance is sold, and Elliott or Eric receives a portion of that commission. You are never obligated or required to purchase insurance products through Elliott or Eric in their capacity as insurance producers. This does create a material conflict of interest in that it provides an incentive for Elliott and Eric to recommend insurance products based on compensation received rather than on a Client's needs. As supervised persons of Empirical, Elliott and Eric are bound by the fiduciary standards set forth in the firm's code of ethics to place the needs of each client above their own personal financial gain.

Although we recommend you use the services of Empirical Legal Services, PLLC, you are never obligated or required to use their services. There are other law firms that provide legal services similar to those provided by Empirical Legal Services, PLLC, and may provide such services for less expensive rates. Whenever we recommend Empirical Legal Services PLLC, you are encouraged to consider other law firms too. Our recommendation to use Empirical Legal Services, PLLC may present a conflict of interest as both firms have an economic incentive to refer clients to each other in lieu of referring clients to other law firms or financial professionals, but there is no obligation to provide such referrals to each other. Any engagement of Empirical Legal Services, PLLC is separate and independent of our services, per a separate written agreement between you and Empirical Legal Services, PLLC. There is no fee sharing arrangement between our firm and Empirical Legal.

Empirical also manages one private fund, Empirical Alternative Income Fund, LP, that qualifies for the exclusion from the definition of investment company under section 3(c)(1) of the Investment Company Act of 1940, as well as one venture capital fund, Empirical Venture Capital Fund, LP. These relationships do not create a material conflict of interest with clients.

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

In accordance with Rule 204A-1 under the Advisers Act, we have adopted a code of ethics ("Code of Ethics" or "Code"), applicable to all of Empirical's supervised persons. Among other things, the Code of Ethics, 1) describes standards of business conduct, 2) contains provisions that require supervised persons to comply with all applicable state and Federal laws, 3) requires that all access persons (defined as supervised persons who have access to non-public information regarding a client's investments or who are involved in making securities recommendations to clients) report and we review personal securities transactions and holdings reports, 4) requires that supervised persons report breaches of the Code of Ethics to the chief compliance officer ("CCO") or her designee, and 5) stipulates that Empirical deliver to and receive written acknowledgement from employees regarding their receipt of the Code of

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Ethics and any amendments. You may request a copy of our Code of Ethics by contacting your advisor or our CCO at [compliance@empirical.net](mailto:compliance@empirical.net).

We may render any advice or service concerning securities of companies in which any of our supervised persons may have a substantial economic interest, if we either determine in good faith that we may appropriately do so without disclosing such conflict to you or disclose such conflict to you prior to rendering such advice or services with respect to the account. Our supervised persons may also trade securities for their personal accounts identical to or different than those recommended to you. These two scenarios present a potential conflict of interest in that there is a possibility that employees might benefit from market activity in your account in a security held by an employee. To ameliorate this conflict, employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between Empirical and you. It is our expressed policy that no person employed by us will place his or her own interest over yours or make personal investment decisions based upon your investment decisions.

Employee personal accounts may trade in the same securities with client accounts on an aggregated basis when consistent with our obligation to seek best execution. In such circumstances, the employee personal accounts and client accounts will share commission costs equally and receive securities at a total average price. We will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the order.

Our Code of Ethics prohibits the use of material non-public information and requires all access persons to act with the fundamental principles of openness, integrity, honesty, diligence, respect, trust, competence, and dignity, and to conduct themselves in an ethical manner. We will act as a fiduciary that owes each of our clients the duties of care and loyalty with respect to all services undertaken on your behalf. We will use reasonable care and exercise independent judgment when conducting investment analysis, making investment recommendations, taking investment actions and engaging in other professional activities.

**Item 12 – Brokerage Practices**

Except to the extent you direct otherwise, we will use our discretion in recommending the broker-dealer and therefore the commission charged. In selecting or recommending the broker-dealer, we will comply with the Securities Exchange Act of 1934 and with our fiduciary duty to obtain best execution.

We do not act as a custodian with regard to your assets that we manage, although per SEC regulations we are deemed to have custody of your assets simply due to our ability to directly debit your advisory fees. Recent SEC guidance also clarified that a standing letter of authorization granting third-party money movement constitutes custody as well. (Please see Item 15 – Custody) Your assets must be maintained in an account at a “qualified custodian”, which, in most cases, is a broker-dealer or bank. We can help you establish a brokerage account with a qualified custodian, but the custodian ultimately chosen is your decision. You will open your account with the custodian by entering into an account agreement directly with them. We do not open the account for you, although we may assist in doing so.



### **How We Select Brokers-Dealers/Custodians**

We seek to use a broker-dealer/custodian who will hold your assets and execute transactions on terms that are, in view of all relevant considerations, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including among others:

- Combination of transaction execution services along with asset custody services (generally without a separate fee for custody)
- Capability to execute, clear and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, etc.)
- Breadth of investment products made available (stocks, bonds, mutual funds, exchange traded funds (ETFs), etc.)
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Reputation, financial strength and stability of the provider
- Their prior service to us and our clients
- Availability of other products and services that benefit us
- The broker-dealers' facilities, reliability, and financial responsibility
- The ability of the broker-dealer to effect transactions, particularly with regards to such aspects as timing, order size and execution of order
- The research and related brokerage services provided by such broker-dealer to us, notwithstanding that the account may not be direct or exclusive beneficiary of such services
- Any other factors we consider to be relevant

### **Our Current Broker-Dealer Relationships**

We currently work with Schwab Advisor Services, a division of Schwab. Schwab will hold your assets in a brokerage account and buy and sell securities when we instruct them. Empirical is not affiliated with Schwab. Generally, Empirical's wrap-fee account clients will be custodied at and retain the brokerage services of Schwab. Fee-based accounts may also utilize the custodial and brokerage services of Schwab.

We currently work with TD Ameritrade, Inc. ("TD Ameritrade") member FINRA/SIPC/NFA and a qualified custodian. TD Ameritrade is an independent and unaffiliated SEC-registered broker-dealer. TD Ameritrade offers services to independent advisors that include, but are not limited to, custody of securities, trade execution, clearance, and settlement of transactions. Fee-based account clients may be custodied at and use the brokerage services of TD Ameritrade. TD Ameritrade will hold your assets in a brokerage account and buy and sell securities when we instruct them to do so.

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We may use Performance Trust Capital Partners, LLC ("Performance Trust") services as a broker-dealer to purchase individual fixed income securities for some portfolios. These securities are purchased through Performance Trust and custodied at Schwab. Empirical is not affiliated with Performance Trust.

We may use Teachers Insurance Annuity Association ("TIAA") and Great-West Life & Annuity Company ("Great-West") to provide low cost variable annuities and custodial services for these annuities. We are then able to connect to these annuities, select and change the investments available in the annuities, and potentially bill the annuities. We do not pay any fees to TIAA or Great-West for this service and do not receive referrals from either provider. You are responsible for any fees associated with the fund, which are paid to TIAA and Great-West directly. Through TIAA and Great-West's advisor services we are generally provided with online access, data downloads, fee deduction capabilities, expanded eligibility to proprietary retirement products and access to an insurance specialist to work one-on-one with us and our clients.

Additionally, we are generally able to view accumulations, see history, process transactions and create annuity and minimum distribution illustrations. The availability to us of the above services will depend on the level of authorization granted by you.

### **Products and Services Available to Us from Mutual Fund Companies**

In some instances, some mutual fund companies, including, but not limited to iShares and Dimensional Fund Advisors, make products and services available that may benefit us, but may not directly benefit your account. These include, but are not limited to, software and other technology that provide research, pricing information and other market data and assist with back-office functions. Some fund companies may discount or waive fees they 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 us. These products and services are not contingent upon committing to fund companies any specific amount of business and are not considered in our investment decision process. As a fiduciary, we endeavor to act in your best interest. However, the aforementioned benefit may create a potential conflict of interest as this relationship could incentivize us to invest in securities issued by these mutual fund companies as they provide a benefit to us through the free research they provide. Supervised persons of Empirical, however, are bound by the fiduciary standards set forth in the firm's code of ethics to place the needs of each client above his or her own potential financial gain.

### **Products and Services Available to Us from Schwab**

Schwab Advisor Services (formerly called Schwab Institutional) is Schwab's business serving independent investment firms like us. They provide us and you with access to their institutional brokerage – trading, custody, reporting and related services – many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer your accounts while others help us manage and grow our business. Schwab's support services are generally available on an unsolicited basis (i.e. we don't have to request them) and at no charge to us so long as we keep a total of at least \$10 million of our clients' assets in accounts at Schwab. Below is a more detailed description of Schwab's support services:

Schwab Advisor Services – Services that May Directly Benefit You: Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions and custody of your assets. The investment products available through Schwab include some of which we might not otherwise have access to or that would require a significantly higher minimum initial investment by you.

Schwab Advisor Services that May Not Directly Benefit You: Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering your accounts. They include, but are not limited to:

- Investment research – this includes both Schwab's own and that of third parties. We may use this research to service all or some

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substantial number of our clients' accounts, including accounts not maintained at Schwab.

- Occasional business entertainment of our personnel
- Software and other technology
  - provides access to your account data (such as trade confirmations and account statements);
  - facilitates trade execution and allocate aggregate trade orders for multiple client accounts;
  - provides pricing and other market data;
  - facilitates payment of our fees from your accounts; and
  - assists with back office functions, record keeping and client reporting.
- Services intended to help us manage and further develop our business enterprise
  - educational conferences and events;
  - technology, compliance, legal and business consulting;
  - access to employee benefit providers, human capital consultants, and insurance providers;
  - publications and conferences on practice management and business succession; and
  - access to an online compliance program to monitor employee personal trades, gifts and entertainment.

As clients of Schwab we get access to much of Schwab's research and data. We use this as needed, and not with respect to any particular client or group of clients. Schwab may provide some of these services itself. In other cases, it will arrange for third party vendors to provide the services to us. Schwab may discount or waive its fees for some of these services or pay all or a part of a third party's fees.

### **Our Interest in Schwab Services**

Empirical does not have to pay for Schwab's services so long as we keep a total of at least \$10 million of client assets in accounts at Schwab. Beyond that, these services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. The \$10 million minimum may give us an incentive to request that you maintain your account with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. It may cause clients to pay commissions higher than those charged by other broker-dealers. This may cost you more money. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in your best interest. It is primarily supported by the scope, quality and price of Schwab's services and not Schwab services that benefit only us. We have over \$1 billion in client assets under management at Schwab, and do not believe that maintaining at least \$10 million of those assets at Schwab to avoid paying Schwab quarterly services fees presents a material conflict of interest.

**Products and Services Available to Us from TD Ameritrade**

We may recommend TD Ameritrade to you for custody and brokerage services.

TD Ameritrade – Services that May Directly Benefit You: TD Ameritrade's brokerage services include, but are not limited to, access to a broad range of investment products, execution of securities transactions and custody of your assets. The investment products available through TD Ameritrade include some to which we might not otherwise have access including, but not limited to, certain mutual funds with no transaction fees and certain institutional money managers that are not available to retail investors.

TD Ameritrade – Services that May Not Directly Benefit You: TD Ameritrade also makes available to us other products and services (provided without cost or at a discount) that benefit us, but may not directly benefit you. These products and services assist us in managing and administering your accounts. They include, but are not limited to:

- Investment research – this includes both TD Ameritrade's own or that of third parties. We may use this research to service all or some substantial number of our clients' accounts, including accounts not maintained at TD Ameritrade.
- Software and other technology
  - provides access to your account data (receipt of duplicate statements and trade confirmations);
  - provides access to a trading desk serving institutional customers;
  - provides access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to your accounts);
  - allows the ability to have advisory fees deducted directly from your accounts; and
  - provides access to an electronic communications network for order entry and account information.
- Services to help us manage and further develop our business enterprise
  - business consulting and professional services;
  - compliance;
  - marketing;
  - technology; and
  - practice management.

As clients of TD Ameritrade we get access to much of TD Ameritrade's research and data. We use this as needed, and not with respect to any particular client or group of clients. Some of the products and services made available by TD Ameritrade through the program may benefit us, but may not benefit your accounts. These products and services may assist us in managing and administering your accounts, including accounts not maintained at TD Ameritrade.

Other services made available by TD Ameritrade are intended to help us manage and further develop our business enterprise. The benefits received by us or our personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of our fiduciary duty to you, we endeavor always to put your interests first. You should be aware, however, that the receipt of economic benefits by us or our related persons in and of itself creates a potential conflict of interest and may indirectly influence our choice of TD Ameritrade for custody and brokerage services. However, investment decisions are made entirely on investment merit, and ancillary services/benefits are not considered.

### **Brokerage for Schwab Client Referrals**

We pay Schwab a participation fee on all referred clients' accounts that are maintained in custody at Schwab, with the exception of those accounts that we classify internally as non-managed. The participation fee paid by us is a percentage of the value of the assets in the client's account. We pay Schwab participation fees for as long as the referred clients' accounts remain in custody at Schwab. Participation fees are billed quarterly by Schwab and may be increased, decreased or waived by Schwab from time to time. Participation fees are paid by us and not you. We do not charge clients referred through Schwab any fees or costs greater than the fee or costs we charge anyone else with similar portfolios that were not referred through Schwab.

We generally pay Schwab a non-Schwab custody fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from Schwab. This fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The non-Schwab custody fee is a one-time payment equal to the percentage of the assets placed with a custodian other than Schwab. The non-Schwab custody fee is higher than the participation fees we generally would pay in a single year. Thus, we will have an incentive to recommend that your accounts be held in custody at Schwab. However, our analysis of custodial/brokerage firms is based purely on the quality of the services provided. The choice of these providers is based upon recommendations from the investment and trading teams, who do not consider the overall relationship with Schwab in this process.

The participation and non-Schwab custody fees are based on the amount of assets in your accounts and the accounts of those referred family members living in the same household. Thus, we will have an incentive to encourage your household members referred through Schwab to maintain custody of their accounts and execute transactions at Schwab as well. In this scenario we would instruct Schwab to debit our fees directly from their accounts.

Trades for your accounts held in custody at Schwab may be executed through a different broker-dealer than trades for our other clients whose accounts are custodied elsewhere as we will use outside brokers if we are able to get better execution, or in exchange for research services assuming execution was equivalent. Thus, trades for accounts held in custody at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

We may have an incentive to select or recommend a broker-dealer based on our interest in receiving client referrals, rather than on our clients' interest in receiving most favorable execution. Nevertheless, we acknowledge our duty to seek best execution of trades for your accounts.

### **Directed Brokerage**

Empirical may recommend that a client custody their assets at either Schwab or TD Ameritrade, thus effectively directing brokerage through those broker-dealers. Not all advisers recommend that their clients direct brokerage. We may recommend that you direct brokerage to Schwab or TD Ameritrade as that arrangement benefits us in that both Schwab and TD Ameritrade provide us with the aforementioned products and services in exchange for this business. This creates a conflict of interest. However, we believe that Schwab and TD Ameritrade offer the best available brokerage services, and therefore feel comfortable recommending their custodial services to clients. By directing brokerage, transactions may cost you more money as we may be unable to achieve best execution.

When a client's account is held at Schwab or TD Ameritrade, these firms generally do not charge separately for custodial services but are instead compensated by charging you, if you are a fee-based client and not a wrap-client, commissions or other fees on trades that are either executed through Schwab or TD Ameritrade, or that settle in your Schwab or TD Ameritrade account. The custodian generally charges you a flat dollar amount as a "prime broker" or "trade away" fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your Schwab or TD Ameritrade account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. In order to minimize your trading costs, we endeavor to have your custodian execute most trades in your account.

In the event you direct us to use a particular broker-dealer, we may be unable to negotiate commissions and may be unable to obtain volume discounts or best execution, and this may cost you more money. In addition, a disparity in commission charges may exist between those charged to clients who direct us to use a particular broker-dealer and those who do not direct us to use a particular broker-dealer. We may trade directed brokerage after non-directed brokerage accounts, and this could potentially make the trades more or less favorable to certain clients.

### **Aggregation of Orders**

We may aggregate orders when performing the same trade across many accounts. This typically occurs only when we are making a broad change to an investment strategy. Generally, most trading is done at the individual level, considering your specific needs and objectives. When transactions are aggregated, the actual prices applicable to the aggregated transaction will be averaged, and your account will be deemed to have purchased or sold its proportionate share of the securities or instruments involved at the average price obtained.

### **Item 13 – Review of Accounts**

Your accounts are generally reviewed at least quarterly on an internal basis. In addition, they are reviewed as special situations arise, such as when strategy changes are made by the Investment Committee, there is a material flow of funds, or your directed allocation changes. Account reviews may include, but are not limited to:

- Reviewing cash needs;
- Analyzing account allocation targets;
- Reviewing tax goals and realized gain/loss for the year;
- Performing retirement projections and distribution strategies;
- Analyzing the performance of each account in relation to appropriate benchmarks; and
- Addressing any other financial questions you may have.

All taxable accounts are reviewed for tax purposes. Account reviewers include both portfolio managers and portfolio administrators.

Generally, a written quarterly report is sent to all clients. This report generally includes, but is not limited to, a portfolio appraisal containing a description of all securities and the amount held in each of your accounts, a description of the management fees for the quarter, and a letter updating you on our current investment strategies and thoughts for the future. Frequency and content of other reports will generally vary.

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

We receive client referrals from Schwab through participation in Schwab Advisor Network. We pay Schwab fees to receive client referrals through the service. A description of these products and services, how they benefit us, and the related conflicts of interest are described above in Item 12 – Brokerage Practices.

### **Item 15 – Custody**

Under government regulations, we are deemed to have custody of your assets if you authorize us to instruct your custodian to deduct our advisory fees directly from your accounts. Recent SEC guidance also clarified that a standing letter of authorization granting third-party money movement constitutes custody as well. Aside from these scenarios, Schwab, TD Ameritrade, TIAA or Great-West acts as a qualified custodian for your assets. You will receive at least quarterly statements from the qualified custodian that holds and maintains your accounts. They will be sent to the email or postal address you provided to your custodian. You should carefully review those statements promptly when you receive them. We urge you to compare official custodian account statements to the quarterly account statements that you will receive from us. Our statements may vary slightly from custodian statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.



### **Item 16 – Investment Discretion**

Generally, at the outset of an advisory relationship, we receive authority to provide ongoing and continuous discretionary or non-discretionary investment advisory services via a signed investment advisory agreement. Discretionary arrangements give us the ability to select the identity and amount of securities to be bought or sold, the timing of those trades, and the broker-dealer to be used for such purchase or sale, all without your prior consent. Non-discretionary agreements require that we first obtain your permission prior to executing such transactions in your account. In all cases, however, such discretion or non-discretion is to be exercised in a manner consistent with the stated investment objectives for your account.

Clients may place restrictions on discretionary authority through written investment guidelines. In some cases, you may instruct us not to trade certain positions without prior authorization, or to trade only under certain market or price conditions. In these cases, we will deem these funds to be “legacy” and only to be traded under the restrictions placed by you. We prefer that “legacy” positions or in some cases entire “legacy” accounts be separated from the managed assets and be considered unmanaged. However, in certain circumstances, your tax or financial planning needs or preferences may require that we keep these positions co-mingled with managed assets, in which case we will be held to the investment guidelines and restrictions given to us.

We do not have investment discretion on linked outside accounts. We will offer advice and recommendations on the linked outside accounts, but it will be your sole responsibility to implement allocation recommendations in these outside accounts linked to us for viewing purposes. These accounts will be deemed “non-managed”.

### **Item 17 – Voting Client Securities**

Unless the client directs otherwise in writing, we are responsible for voting client proxies for most of our clients (however, the client shall maintain exclusive responsibility for all legal proceedings or other types of events pertaining to the account assets, including, but not limited to, class action lawsuits). For these clients, Empirical shall vote proxies in accordance with its Proxy Voting Policy, a copy of which is available upon request. If a client wishes to direct our vote in a particular situation, he or she may request as such. Empirical has contracted with Glass Lewis to provide proxy-voting services for our clients. Empirical, with the help of Glass Lewis, shall monitor corporate actions of individual issuers and investment companies consistent with our fiduciary duty to vote proxies in the best interests of the clients. Factors Empirical will consider when determining how it will vote include, but are not limited to: a review of recommendations from issuer management, shareholder proposals, cost effects of such proposals, effect on employee and executive and director compensation, and recommendations from Glass Lewis. With respect to individual issuers, Empirical may be solicited to vote on matters including, but not limited to, corporate governance, adoption or amendment to compensation plans (including stock options), and matters involving social issues and corporate responsibility.

With respect to investment companies (e.g. mutual funds), Empirical may be solicited to vote on matters including, but not limited to, the approval of advisory contracts, distribution plans, and mergers. Empirical shall maintain records pertaining to proxy voting as required pursuant to Rule 204-2 (c)(2) under the Advisers Act. Information pertaining to how Empirical voted on any specific proxy issue is available upon written request. Requests should be made by contacting our Chief Compliance

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Officer at [compliance@empirical.net](mailto:compliance@empirical.net). If any conflicts of interest should arise between Empirical and its clients with regard to voting in a particular solicitation, Empirical is bound by its fiduciary duty to place the needs of its clients ahead of its own financial interests.

For certain clients, such as for those whom have signed a non-discretionary agreement or those who make specific requests, Empirical does not vote proxies. Such clients shall be responsible for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings, or other type events pertaining to the client's assets. These clients would receive proxies directly from the custodian. If a client has questions about a particular solicitation, the client may contact his or her adviser for advice.

**Item 18 – Financial Information**

Advisers are required in this Item to provide you with certain financial information or disclosures about our financial condition. We have no financial obligations that impair our current or future ability to meet contractual and fiduciary commitments to you, and have not been the subject of a bankruptcy proceeding at any time during the past ten (10) years.