



## Form ADV Part 2A Investment Adviser Brochure

September 2019

This brochure provides information about the qualifications and business practices of Alterity Financial Group, LLC. If you have any questions about the contents of this brochure, please contact Janice Grindle, Senior Vice President, Chief Compliance Officer and Chief Operations Officer at 800-966-7730 and/or [jgrindle@alterityfinancialgroup.com](mailto:jgrindle@alterityfinancialgroup.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Registration as an investment advisor does not imply any level of skill or training.

Additional information about Alterity Financial Group, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You may search this site using a unique identifying number, known as a CRD number, Alterity Financial Group, LLC's CRD Number is 153534.

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## Item 2: Summary of Material Changes

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### **Annual Update**

In this Item of Alterity Financial Group, LLC's (Alterity or the Firm) Form ADV 2, the Firm is required to discuss any material changes that have been made to Form ADV since the last Annual Amendment, dated March 19, 2019.

### **Material Changes since the Last Update**

- The Firm has moved its office location in Tampa, Florida.
- The Firm no longer has custody due to third-party money movement authority. Please see Item 15 for more information.

### **Full Brochure Available**

Alterity's Form ADV may be requested at any time, without charge by contacting Janice Grindle, Senior Vice President, Chief Compliance Officer and Chief Operations Officer at 800-966-7730 or [jgrindle@alterityfinancialgroup.com](mailto:jgrindle@alterityfinancialgroup.com).

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## Item 4: Advisory Business

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### **Firm Description and Types of Advisory Services**

Alterity is an investment adviser and will provide the following types of investment advisory services to individuals, high net worth individuals, trusts, estates, and charitable organizations.

### **Principal Owners**

Alterity was founded in 2010 and is owned by CGC, LLC; CGC, LLC is owned by Jeffrey Chapman and Dudley Gray.

### **Types of Advisory Services**

#### **Investment Management Services**

Clients can engage Alterity to manage all or a portion of their assets on a discretionary or non-discretionary basis.

Alterity also may render non-discretionary investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, and/or 529 plans or other products that may not be held by the client's primary custodian. In so doing, Alterity either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

Alterity provides continuous advice to clients regarding investment of client funds based on the individual needs of the client. Through personal discussions in which goals and objectives based on a client's circumstances are established, Alterity develops a client's personal investment policy and creates and manages a portfolio based on that policy. Account supervision is guided by the stated objectives of the client (i.e., maximum capital appreciation, growth, income, growth and income, etc.).

Alterity will create a portfolio consisting of one or all the following, as appropriate: individual equities, options, bonds and other investment products, and no-load or load-waived mutual funds and ETFs. Alterity will allocate the client's assets among various investments taking into consideration the overall management style selected by the client. Mutual funds will be selected based on any or all the following criteria: the fund's performance history; the industry sector in which the fund invests; the track record of the fund's manager; the fund's investment objectives; the fund's management style and philosophy; and the fund's management fee structure. Portfolio weighting between funds and market sectors will be determined by each client's individual needs and circumstances. Clients will have the opportunity to place reasonable restrictions on the types of investments which will be made on the client's behalf. Clients will retain individual ownership of all securities.

## **Financial Planning and Consulting Services**

Alterity may offer its clients a broad range of financial planning and consulting services. These services include education, and/or planning for retirement, small business, insurance, estate or trust planning. In addition, clients may engage Alterity to provide performance reporting and other consulting services on an ongoing or as needed basis.

In performing its services, Alterity is not required to verify any information received from the client or from the client's other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. Alterity may recommend the services of itself and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if Alterity recommends its own services. The client is under no obligation to act upon any of the recommendations made by Alterity under a financial planning or consulting engagement or to engage the services of any such recommended professional, including Alterity itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of Alterity's recommendations. Clients are advised that it remains their responsibility to promptly notify Alterity if there is ever any change in their financial situation or investment objectives for reviewing, evaluating, or revising Alterity's previous recommendations and/or services.

## **Other investments**

In certain circumstances, Alterity may recommend that clients invest in pooled investment vehicles (Private Placements) which are available only to persons who are "accredited investors" under the Securities Act of 1933, or, in the case of some of the funds, "qualified purchasers" under the Investment Company Act of 1940, as amended.

## **Tailored Relationships**

Alterity tailors investment advisory services to the individual needs of the client. The goals and objectives for each client are documented in client files. Alterity clients are allowed to impose restrictions on the investments in their account. Alterity may accept any reasonable limitation or restriction to discretionary authority on the account placed by the client. All limitations and restrictions placed on accounts must be presented to Alterity in writing.

## **Fiduciary Statement**

Alterity and its employees are fiduciaries who must take into consideration the best interests of the Firm's clients. Alterity will act with competence, dignity, integrity, and in an ethical manner, when dealing with clients. Alterity will use reasonable care and exercise independent professional judgement when conducting investment analysis, making investment recommendations, trading, promoting our services, and engaging in other professional activities.

As a fiduciary, Alterity has the obligation to deal fairly with clients. Alterity has the following responsibilities when working with a client:

- To render impartial advice;

- To make appropriate recommendations based on the client's needs, financial circumstances and investment objectives;
- To exercise a high degree of care and diligence to ensure that information is presented in an accurate manner and not in a way to mislead;
- To have reasonable basis, information, and understanding of the facts in order to provide appropriate recommendations and representations;
- Disclose any material conflict of interest in writing; and
- Treat clients fairly and equitably.

### **Wrap Fee Programs**

Alterity does not participate in a Wrap Fee Program.

### **Client Assets**

As of February 13, 2019, Alterity manages \$100,768,781 in assets under management. \$81,435,371 is managed on a discretionary basis and \$19,333,410 is managed on a non-discretionary basis.

## Item 5: Fees and Compensation

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### **Investment Management Fees**

Alterity provides investment management services for an annual fee. Annual fees may be charged as a percentage of the assets under management or assets reported on, or a flat fee. Alterity's annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by Alterity on the last day of the previous quarter. The annual fee varies (usually between 0.50% and 1.75%) depending upon the market value of the assets under management or reported on, and the type of investment management services to be rendered.

Clients may elect to be invoiced directly for fees or to authorize Alterity to directly debit fees from client accounts.

### **Fees for Management during Partial Quarters of Service**

For the initial period of investment management services, the fees are calculated on a *pro rata* basis. Our minimum annual fee is \$50.00 per account.

Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, however, no portion of the minimum fee will be refunded.

### **Financial Planning and Consulting Fees**

Alterity may charge a fixed fee for "as needed" financial planning and consulting services. These fees are negotiable, but generally range from \$500 to \$1,000, depending upon the level and scope of the services and the professional rendering the financial planning and/or the consulting services. Furthermore, clients may engage Alterity to provide performance reporting, as needed consulting and feedback regarding market data for a fee based upon the amount of assets that Alterity is reporting on. These fees are also negotiable, but generally range from an annual 0.25% to 1.00% of the assets being reported on (charged quarterly in advance), depending upon the level and scope of the services and the professional rendering those consulting services.

If the client engages Alterity for additional investment advisory services, Alterity may offset all or a portion of its fees for those services based upon the amount paid for the financial planning and/or consulting services.

Prior to engaging Alterity to provide financial planning and/or consulting services, the client is required to enter into a written agreement with Alterity setting forth the terms and conditions of the engagement. Generally, for "as needed" services, Alterity requires one-half of the financial planning / consulting fee payable upon entering the written agreement. The balance is generally due upon delivery of the financial plan or completion of the agreed upon services.

## **Other Investment Fees**

When Alterity recommends that clients invest in Private Placements, the underlying provider or underwriter will typically charge an additional fee to Alterity's investment management fee. This fee is fully disclosed to the client at the time of the recommendation.

## **Agreement Terms**

The Agreement between Alterity and the client will continue in effect until terminated by either party pursuant to the terms of the Agreement. Alterity's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate. Clients may make additions to and withdrawals from their account at any time, subject to Alterity's right to terminate an account. Additions may be in cash or securities if Alterity reserves the right to liquidate any transferred securities or decline to accept securities into a client's account. Clients may withdraw account assets on notice to Alterity, subject to the usual and customary securities settlement procedures. However, Alterity designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. Alterity may consult with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

If assets are deposited into or withdrawn from an account after the inception of a quarter that exceed \$50,000, the fee payable with respect to such assets will be prorated based on the number of days remaining in the quarter.

## **General Information on Compensation and Other Fees**

In certain circumstances, fees, account minimums and payment terms are negotiable depending on client's unique situation – such as the size of the aggregate related party portfolio size, family holdings, low cost basis securities, or certain passively advised investments and pre-existing relationships with clients. Certain clients may pay more or less than others depending on the amount of assets, type of portfolio, or the time involved, the degree of responsibility assumed, complexity of the engagement, special skills needed to solve problems, the application of experience and knowledge of the client's situation.

Alterity's fees are exclusive of certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus.

Additionally, clients may incur brokerage commissions and transaction fees.



Such charges, fees and commissions are exclusive of and in addition to Alterity's fee, and Alterity shall not receive any portion of these commissions, fees, and costs.

All fees paid to Alterity for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and variable annuity sub-accounts to their shareholders. These fees and expenses are described in each fund's or sub account's prospectus. These fees will generally include a management fee, other expenses, and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge.

A client could invest in a mutual fund or sub-account directly, without the services of Alterity. In that case, the client would not receive the services provided by Alterity which are designed, among other things, to assist the client in determining which mutual funds or sub-accounts are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds/sub-accounts and the fees charged by Alterity to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

Clients should note that similar advisory services may (or may not) be available from other registered investment advisers for similar or lower fees.

## Item 6: Performance-Based Fees and Side-by-Side Management

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Neither Alterity nor any of its Supervised Persons (employees) accepts performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

Alterity does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

## Item 7: Types of Clients

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### **Types of Clients**

As described in Item 4, Alterity may provide its services to individuals, high net worth individuals, trusts, estates, small businesses and charitable organizations.

### **Account Minimums**

As a condition for starting and maintaining a relationship, Alterity generally imposes a minimum annual fee of \$50 per account. This minimum fee may have the effect of making Alterity's service impractical for clients, particularly those with portfolios less than \$5,000 under Alterity's management. Alterity, in its sole discretion, may waive its minimum annual fee based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and *pro bono* activities.

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

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### **Methods of Analysis**

Alterity's primary methods of analysis are fundamental, technical and cyclical analysis. *Fundamental analysis* involves the fundamental financial condition and competitive position of a company. Alterity will analyze the financial condition, capabilities of management, earnings, new products and services, as well as the company's markets and position amongst its competitors in order to determine the recommendations made to clients. The primary risk in using fundamental analysis is that while the overall health and position of a company may be good, market conditions may negatively impact the security. *Technical analysis* involves the analysis of past market data rather than specific company data in determining the recommendations made to clients. Technical analysis may involve the use of charts to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. The primary risk in using technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that Alterity will be able to accurately predict such a reoccurrence. *Cyclical analysis* is similar to technical analysis in that it involves the analysis of market conditions at a macro (entire market/economy) or micro (company specific) level, rather than the overall fundamental analysis of the health of the company that Alterity is recommending. The risks with cyclical analysis are similar to those of technical analysis.

### **Investment Strategies**

Alterity selects securities for each account based on asset allocation decisions and input from clients regarding needs for immediate liquidity rather than making decisions about the attractiveness of individual stocks versus bonds. The aim is to maximize the accounts long-term return as well as protecting assets.

For an account's stock allocation (if any) Alterity has an approved "working list" of stocks, mutual funds and ETF's which are selected to represent each of the sectors of the S&P 500 Index. The number of selections from each sector is somewhat governed by the percent allocation within the S&P 500 of that sector. Stocks selected are chosen based on liquidity, recommended attractiveness in the opinion of leading rating and research services (including but not limited to Ned Davis, S&P, Argus, etc.) and hopefully have a 15-20% upside potential.

For accounts holding fixed income investments, allocations of US Treasuries, Agencies, Corporate bonds or Preferred stocks may be employed. Maturity ranges selected will be in part determined by the client's need for current income and that client's investment time horizon. The greater the need for higher current cash flow, the greater the likelihood that longer (beyond 10 years) maturities will be used. With regard to corporate bonds, investment grade issues will generally be selected with at least one of the two major rating services having rated the bond Baa or BBB (considered investment grade). Occasionally high yield bonds will be used if client's investment objective and risk tolerance allow. Individual issues are evaluated on their respective attractiveness, yield to maturity (or

yield to worst), its liquidity and its relative attractiveness by yield to comparably rated issues. A bond's estimate of total return is a factor of purchase price, redemption value, time to maturity and yield. ETFs or bond funds may be employed if this would make more sense with respect to liquidity and diversification or risk spreading due to a limited amount of capital to be invested. Alterity utilizes money market funds for cash investments. With regard to rebalancing a portfolio, it is Alterity's intention not to overweight any single stock holding in a portfolio. Positions over 15% of the total portfolio value will be reduced, if not immediately, then by a systematic liquidation program designed for the individual client. Additionally, while Alterity may overweight or underweight a sector based on its perception of attractiveness, Alterity's policy is not to place big bets by overweighting in any sector or position.

### **Risk of Loss**

All investments involve the risk of loss, including (among other things) loss of principal, a reduction in earnings (including interest, dividends and other distributions), and the loss of future earnings. These risks include market risk, interest rate risk, issuer risk, and general economic risk. Although Alterity manages assets in a manner consistent with risk tolerances, there can be no guarantee that Alterity's efforts will be successful. The investor should be prepared to bear the risk of loss.

All investment programs have certain risks that are borne by the investor. Alterity's investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar next year will not buy as much as a dollar today, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can

generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.

- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

Alterity reserves the right to advise clients on any other type of investment that it deems appropriate based on the client's stated goals and objectives. Alterity may also provide advice on any type of investment held in a client's portfolio at the inception of the advisory relationship or on any investment on which the client requests advice.

## Item 9: Disciplinary Information

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Alterity is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. Alterity does not have any required disclosures to this Item.

## Item 10: Other Financial Industry Activities and Affiliations

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### **Financial Industry Activities**

Alterity is not registered as a broker-dealer, and none of its management persons are registered representatives of a broker-dealer.

Neither Alterity nor any of its management persons is registered as (or associated with) a futures commissions merchant, commodity pool operator, or a commodity trading advisor.

### **Affiliations**

#### **Licensed Insurance Agency/Agents**

Alterity is registered as an insurance company in Maine and Florida; however, clients are under no obligation to choose Alterity for their insurance needs.

Certain of Alterity's Investment Advisor Representatives (IARs) are also licensed insurance agents appointed with various insurance companies, and in such capacity, may recommend, on a fully-disclosed basis, the purchase of certain insurance products. A conflict of interest exists to the extent that Alterity recommends the purchase of insurance products where the IAR receives insurance commissions or other additional compensation. Alterity has procedures in place to ensure that any recommendations made by its IARs are in the best interest of clients regardless of any additional compensation earned.

Compensation earned for insurance transactions is paid directly to Alterity. Licensed insurance agents receive a portion of the total insurance commissions. Insurance compensation will be separate and distinct from investment advisory fees charged by Alterity. This is fully disclosed to clients.

#### **Other Investment Advisors**

Alterity does not recommend or select other investment advisors for its clients.



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

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### **Code of Ethics**

Alterity and persons associated with Alterity (“Associated Persons”) are permitted to buy or sell securities that it also recommends to clients consistent with Alterity’s policies and procedures.

Alterity has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws (the “Code”). In accordance with Section 204A of the Investment Advisers Act of 1940 (the “Advisers Act”), its Code contains written policies reasonably designed to prevent the unlawful use of material non-public information by Alterity or any of its associated persons. The Code also requires that certain of Alterity’s personnel (called “Access Persons”) report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in Alterity’s Code, none of Alterity’s Access Persons may affect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the Access Person) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of Alterity’s clients.

When Alterity is purchasing or considering for purchase any security on behalf of a client, no Access Person may affect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Alterity is selling or considering the sale of any security on behalf of a client, no Access Person may affect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers’ acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high-quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

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

### **Participation or Interest in Client Transactions – Personal Securities Transactions**

Alterity and its employees may buy or sell securities identical to those recommended to clients for their personal accounts. The Code of Ethics, described above, is designed to assure that the personal securities transactions, activities and interests of the employees of Alterity will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities, primarily

mutual funds, have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of Alterity's clients. In addition, the Code requires pre-clearance of many transactions. Nonetheless, because the Code in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code and designed to reasonably prevent conflicts of interest between Alterity and its clients.

#### **Participation or Interest in Client Transactions – Financial Interest and Principal/Agency Cross**

Alterity and its employees do not recommend to clients, or buy or sell for client accounts, securities in which they have a material financial interest.

It is Alterity's general policy that the Firm will not affect any principal or agency cross securities transactions for client accounts. However, if in the best interest of our client due to availability or other pertinent issues, Alterity will allow cross trades between client accounts on a limited basis and only when approved by the current custodian.

#### **Participation or Interest in Client Transactions – Aggregation**

Alterity and its employees may trade in the same securities with client accounts on an aggregated basis when consistent with Alterity's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. Alterity 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.

## Item 12: Brokerage Practices

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### **Research and Other Soft Dollar Benefits**

Alterity does not receive formal soft dollar benefits other than execution from broker/dealers in connection with client securities transactions. See disclosure below in “Brokerage – Other Economic Benefits”.

### **Brokerage for Client Referrals**

Alterity does not receive client referrals from broker/dealers.

### **Directed Brokerage**

Alterity generally recommends that clients utilize the brokerage and clearing services of Charles Schwab & Co., Inc. (“Schwab”) for investment management accounts.

Alterity may only implement its investment management recommendations after the client has arranged for and furnished Alterity with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, Schwab, any other broker-dealer recommended by Alterity, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the “qualified custodians”).

Factors which Alterity considers in recommending Schwab or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. Schwab enables Alterity to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by Schwab may be higher or lower than those charged by other qualified custodians.

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

Transactions may be cleared through other qualified custodians with whom Alterity and the qualified custodians have entered into agreements for prime brokerage clearing services. Alterity periodically and systematically reviews its policies and procedures regarding its recommendation of qualified custodians considering its duty to obtain best execution. The client may direct Alterity in writing to use a particular *qualified custodian* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution*, and Alterity will not

seek better execution services or prices from other qualified custodians or be able to “batch” client transactions for execution through other qualified custodians with orders for other accounts managed by Alterity (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, Alterity may decline a client’s request to direct brokerage if, in Alterity’s sole discretion, such directed brokerage arrangements would result in additional operational difficulties or violate restrictions imposed by other broker-dealers (as further discussed below).

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

#### **Directed Brokerage – Other Economic Benefits**

Alterity may receive from Schwab, without cost to Alterity, computer software and related systems support, which allow Alterity to better monitor client accounts maintained at Schwab. Alterity may receive the software and related support without cost because Alterity renders investment management services to clients that maintain assets at Schwab. The software and related systems support may benefit Alterity, but not its clients directly. In fulfilling its duties to its clients, Alterity endeavors always to put the interests of its clients first. Clients should be aware; however, that Alterity’s receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence Alterity’s choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

Additionally, Alterity may receive the following benefits from Schwab through its Schwab Institutional division: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services the Schwab Institutional participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

#### **Trade Aggregation**

Trades may be aggregated as disclosed in Item 11.

## Item 13: Review of Accounts

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### **Reviews**

For those clients to whom Alterity provides investment management services, Alterity monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least an annual basis. For those clients to whom Alterity provides financial planning and/or consulting services, reviews are conducted on an “as needed” basis. Such reviews are conducted by Jeffrey Chapman, President, Chief Executive Officer and Chief Investment Officer; Janice Grindle, Senior Vice President, Chief Compliance Officer and Chief Operations Officer; David Krech, Senior Vice President and Investment Advisor Representative; Lowrie Sargent, Vice President and Investment Advisor Representative; Justin Paul Elliot, Investment Advisor Representative; Thomas Saunders, Vice President and Investment Advisor Representative. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with Alterity and to keep Alterity informed of any changes thereto. Alterity contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client’s financial situation and/or investment objectives.

### **Review Triggers**

Other conditions that may trigger a review are changes in market, political or economic conditions, tax laws, new investment information, and changes in a client's own situation.

### **Reporting**

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom Alterity provides investment advisory services may also receive upon request a report from Alterity that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance.

### **Financial Planning – Reviews and Reporting**

Those clients to whom Alterity provides financial planning and/or consulting services will receive reports from Alterity summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by Alterity.

## Item 14: Client Referrals and Other Compensation

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### **Other Compensation**

Alterity does not receive any economic benefits (other than normal compensation and benefits described in Item 12) from any firm or individual for providing investment advice.

As noted in Item 10, compensation earned for insurance transactions is paid directly to Alterity. Licensed insurance agents receive a portion of the total insurance commissions. Insurance compensation will be separate and distinct from investment advisory fees charged by Alterity, which is fully disclosed to clients.

### **Compensation – Client Referrals**

Alterity may enter into written arrangements to pay cash referral fees to individuals or companies (solicitors) who refer prospective clients to the Firm. In these cases, there will be a written agreement between Alterity and the solicitors, which clearly defines the duties and responsibilities of the solicitor under this arrangement. In addition, each solicitor is required to provide a written disclosure document, which explains to the prospective client the terms under which the solicitor is working with Alterity and the fact that the solicitor is being compensated for the referral activities. The solicitor is also required to furnish a copy of Alterity's written disclosure document to the prospective client and obtain a written acknowledgement from the client that both the solicitor's and Alterity's disclosure documents have been received. Alterity does not have any firms or persons soliciting advisory business on their behalf at this time.

## Item 15: Custody

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### **Custody – Fee Debiting**

Clients authorize Alterity to debit fees directly from the client's account at the broker dealer, bank or other qualified custodian (custodian). Other methods of fee payment may be authorized by the client in writing in a separate document. Client investment assets will be held with a custodian agreed upon by the client and Alterity. The custodian is advised in writing of the limitation of Alterity's access to the account. The custodian sends a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of advisory fees paid directly to Alterity.

### **Custody – Account Statements**

The qualified custodians recommended by Alterity have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Alterity. In addition, as discussed in Item 13, Alterity may also send upon client request periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the qualified custodian and compare them to those received from Alterity.

## Item 16: Investment Discretion

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Alterity may accept limited power of attorney to act on a discretionary basis on behalf of clients. A limited power of attorney allows Alterity to execute trades on behalf of clients without first having to seek the client's consent.

When such limited powers exist between the Alterity and the client, Alterity has the authority to determine, without obtaining specific client consent the amount and type of securities to be bought to satisfy client account objectives when transactions are made and which qualified custodians to be utilized.

If Alterity has not been given discretionary authority, Alterity consults with the client prior to each trade.



## Item 17: Voting Client Securities

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Alterity does not have any authority to and does not vote proxies on behalf of clients. Clients retain the responsibility for receiving and voting proxies for securities maintained in their portfolios; clients receive these proxies directly from either custodians or transfer agents.

If requested, Alterity may provide advice to clients regarding proxy votes. If any conflict of interest exists, it will be disclosed to the client. Clients may contact Janice Grindle at 800-966-7730 for information about proxy voting.

## Item 18: Financial Information

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Alterity has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.

Alterity is not required to provide a balance sheet; Alterity does not serve as a custodian for client funds or securities and does not require prepayment of fees of both more than \$1,200 per client, and more than six months in advance.