

# **FIRM BROCHURE**

## **Part 2A of Form ADV**

**March 14, 2019**

### **The Clark Group Asset Management**

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**Part 2A of Form ADV (the “Brochure”) provides information about the qualifications and business practices of The Clark Group Asset Management. If you have any questions about the contents of this Brochure, please contact us at (949) 558-3898 and/or [eric@clarkgroupam.com](mailto:eric@clarkgroupam.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.**

**The Clark Group Asset Management is a registered investment adviser with the U.S. Securities and Exchange Commission; however, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.**

**Additional information about The Clark Group Asset Management and its investment adviser representatives also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## ITEM 1: COVER PAGE

Please refer to the previous page.

## ITEM 2: MATERIAL CHANGES

The Clark Group Asset Management ("CGAM") is amending this Brochure dated March 14, 2019 to provide the following updated information:

- Item 4 – Advisory Business – updated to reflect the Firm's Assets Under Management of \$ 185,592,359.00 as of December 31, 2018.

These are the only material changes within the Brochure. The previous Brochure was dated March 5, 2018.

Pursuant to SEC Rules, CGAM will ensure that clients receive a summary of any materials changes to this Brochure within 90 days of the close of CGAM's fiscal year, along with a copy of this Brochure or an offer to provide the Brochure. Additionally, as CGAM experiences material changes in the future, we will send you a summary of our "Material Changes" under separate cover. For more information about the firm, please contact [eric@clarkgroupam.com](mailto:eric@clarkgroupam.com).

Additional information about CGAM and its investment adviser representatives is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## ITEM 4: ADVISORY BUSINESS

### A. Description of Firm

The Clark Group Asset Management is a Dana Point, California-based investment management firm founded in 2005 and registered with the U.S. Securities and Exchange Commission ("SEC") in 2012. CGAM offers customized investment management services to individuals, high net worth clients, pension and profit sharing plans, trusts, estates, corporations and other types of business entities. Some of the investment instruments CGAM advises its clientele on include, among other things, investment company securities, equity exchange-traded funds ("ETFs"), equities, and fixed income. CGAM periodically sends newsletters, e-mails, and other correspondence of general market information and items of interest to its clients and prospective clients on a complimentary basis. In addition, CGAM can occasionally hold complimentary informational/educational investment seminars for its clients and prospective clients.

CGAM currently is registered with the SEC as an investment adviser and with the State of California as a DBA under the legal name of Pachira Investments, Inc., conducting business in a number of states, which are reflected in Part 1 of our Form ADV, a copy of which can be found on [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

The principal owners of CGAM are Ray Clark, who serves as the Firm's President and CEO, and Eric Cedergreen, Executive Vice President and Chief Compliance Officer.

### B. Types of Advisory Services Offered

CGAM provides its clientele with asset management services on a discretionary and non-discretionary basis. Through this process, complementary financial analysis services also are offered for client's long-term planning purposes.

#### Complimentary Financial Analysis

CGAM's investment advisory services are comprised of two stages. During the first stage, CGAM gathers essential information from the client in order to conduct a financial analysis of the client's current financial situation. At the conclusion of this assessment, CGAM will make certain investment recommendations based upon its findings and the client's expressed needs. In stage two, CGAM will implement those agreed upon recommendations and actively manage the client's account.

#### 1. Financial Analysis

CGAM's investment advisory services begins with a Financial Analysis. First, CGAM conducts a complimentary initial consultation during which time pertinent information about the client's financial circumstances and objectives is collected. Next, the Firm reviews and analyzes the information provided by the client and then offers recommendations designed with the intention of achieving the clients' stated financial goals and objectives.

The Financial Analysis is based on the client's financial situation at the time the analysis is conducted and is supported by the information disclosed by the client to CGAM. As the client's financial situation, goals, objectives, or needs change, the clients are strongly urged to promptly notify the Firm.

At the conclusion of the Financial Analysis, CGAM will make certain recommendations for short- and long-term planning and investments which can include advice regarding existing investment accounts and various asset allocation and risk management strategies. Clients are free at all times to accept or reject any or all recommendations made by the Firm. Clients retain the authority and discretion on whether or not to implement CGAM's recommendations.

All Financial Analyses are offered as a complimentary service to CGAM asset management clients.

## **2. Asset Management Services**

After the client discusses the proposed recommendations by CGAM, CGAM will implement such recommendations as mutually agreed upon. The client will receive those advisory services as outlined within CGAM's investment advisory agreement and in Item 4.B of this Brochure. Please note that other investment advisers can offer similar services, with costs that are higher or lower than those obtainable from CGAM. Please refer to Item 5 below for important detailed information on fees.

CGAM provides its investment management service by offering clients a tailored investment management solution that encompasses traditional asset classes of fixed income and domestic, international and emerging market equities. For purposes of these categorizations, equities can be defined as common stocks, exchange traded funds (ETFs) based on stock indices, inverse ETFs, equity mutual funds, and publicly traded REITs. Fixed income can be defined as government bonds, municipal bonds, corporate bonds, high yield bonds, foreign bonds, CDs, ETFs based on bond indices, inverse ETFs, fixed income mutual funds, short-term fixed income instruments and certain preferred stocks. Cash represents either money market funds or cash equivalents.

CGAM manages all client assets on a fully discretionary basis and in some cases, on a non-discretionary basis. In exercising full discretionary authority CGAM selects, without first obtaining client's permission: the securities to be bought and sold; the amounts of securities to be transacted and whether it will be individually or block traded. Discretionary authority can be subject to conditions imposed by a client. This can occur when a client restricts or prohibits transactions in a security for a specific company or for an industry sector. While CGAM generally allows clients to impose reasonable restrictions on the types of securities and/or industries they do not want to be included in their portfolio, each client assumes responsibility for informing CGAM of any changes to these restrictions or to their overall investment objectives.

CGAM selects investments based on analysis performed by CGAM, and once implemented, are monitored to ensure the investments continue to meet CGAM's overall investment objective and

criteria. For investment selection, CGAM advises on investments based upon research of market data and ongoing market and performance analytics. Once this fundamental analysis is completed, securities can be added to client portfolios and thereafter, are continuously monitored for imbalances or shifts.

**C. Information Relating to All CGAM Services**

The investment advice provided by CGAM is customizable, with each client's portfolio managed based upon the individual needs, objectives, and other financial goals of the client. At the onset of the client relationship, CGAM memorializes each client's investment objectives, risk tolerance, investment guidelines, time horizons and other important and necessary information in an Investment Profile Questionnaire. The information provided, together with any other information relating to the client's overall financial circumstances, will be used by CGAM to determine the appropriate portfolio asset allocation and investment strategy for each client.

CGAM will not assume any responsibility for the accuracy of the information provided by the client. CGAM is not obligated 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. Under all circumstances, clients are responsible for promptly notifying CGAM in writing of any material changes to the client's financial situation, investment objectives, time horizon, or risk tolerance. In the event that a client notifies CGAM of changes in the client's financial circumstances or to the information in their Investment Profile Questionnaire, CGAM will review such changes and recommend any necessary revisions to the client's portfolio. CGAM makes every effort to meet with clients in person or over the phone no less than annually to review the client's investment goals and current advisory portfolios. Advisory representatives are also available during normal business hours to consult with clients.

**D. Advisory Agreements**

Prior to engaging CGAM to provide investment advisory services, the client will be required to enter into one or more written agreements with CGAM setting forth the terms and conditions under which CGAM shall render its services (collectively the "Agreement").

In accordance with Rule 204-3 under the Investment Advisers Act of 1940, as amended ("Advisers Act"), CGAM will provide a brochure and one or more brochure supplements to each client or prospective client prior to or contemporaneously with the execution of an investment advisory agreement.

The Agreement between CGAM and the client will continue in effect until terminated by either party pursuant to the terms of the Agreement. CGAM's annual fee shall be prorated through the date of termination as defined in the Agreement and any remaining balance shall be charged or refunded to the client, as appropriate, in a timely manner.

Neither CGAM nor the client can assign the Agreement without the consent of the other party. Transactions that do not result in a change of actual control or management of CGAM shall not be considered an assignment.

## **E. Assets Under Management**

As of December 31, 2018, the following represents the amount of client assets under management by CGAM on a discretionary and non-discretionary basis:

Type of Account	Assets Under Management ("AUM")
Discretionary	\$ 154,327,257.00
Non-Discretionary	\$31,265,102.00
Total:	\$185,592,359.00

## **ITEM 5: FEES AND COMPENSATION**

### **A. Advisory Fees**

CGAM charges fees based on a percentage of assets under management. The fee charged by CGAM for its advisory services will be set forth in each client's written agreement with CGAM. Although CGAM believes its advisory fees are competitive, clients should be aware that lower fees for comparable services can be available from other sources.

#### Asset Management Fees

CGAM generally charges a quarterly asset management fee based on the account's assets under management ("AUM") as of the close of business on the last business day of the preceding calendar quarter. Asset management fees are calculated and paid quarterly in advance based on the following annual percentages:

Assets Under Management	Annual Advisory Fee
0 to \$499,999	Up to 2%
\$500,000 to \$999,999	Up to 1.75%
\$1,000,000 to \$2,999,999	Up to 1.50%
\$3,000,000 to \$9,999,999	Up to 1.25%
Over \$10,000,000	Up to 1.00%

Lower fees for comparable services can be available from other sources. These fees can be negotiated by CGAM under certain circumstances, and at the sole discretion of CGAM. In addition, CGAM can waive its investment advisory fees for members of the Firm and their immediate family who have accounts managed by CGAM.

Should a client open an account during the quarter, management fees will be prorated for assets held for a partial quarter based on the number of days that the account was open during the quarter. In the event that CGAM's services are terminated mid-quarter, the annual fee shall be prorated through the date of termination as defined in the Agreement and any earned, unpaid balance will be immediately due and payable by client, and any pre-paid unearned fees will be promptly refunded to the client.

For purposes of calculating assets under management and advisory fees, CGAM will consider all investment management accounts which constitute the "household" of the client's assets. Typically, a client's household consists of any spouse, parent, child, partner or sibling.

## **B. Other Fees and Expenses**

Clients should understand that the advisory fees described in the sections above do not include certain charges imposed by third parties such as custodial fees, mutual fund fees and expenses. Client assets also can or will be subject to transaction costs, deferred sales charges on mutual funds initially deposited in the account, 12b-1 fees, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

Client assets invested in mutual funds will be subject to certain fees and expenses imposed directly by mutual funds to their shareholders, which shall be described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the sponsor also imposes sales charges, a client can pay initial or deferred sales or surrender charge.

These fees and expenses are separate from and in addition to the fees charged by CGAM. Accordingly, the client should review the fees charged by any mutual funds in which the client's assets are invested, together with the fees charged by CGAM, to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

Additionally, clients can incur brokerage commissions and other execution costs charged by the custodian or executing broker-dealer in connection with transactions for a client's account. Clients should further understand that all custodial fees and any other charges, fees and commissions incurred in connection with transactions for a client's account will be paid out of the assets in the account and are exclusive of and in addition to the fees charged by CGAM.

Some clients can have a relational account agreement with CGAM whereby they maintain personal brokerage accounts at Schwab for which CGAM can trade at the client's instructions. On these occasions, the client will pay the normal brokerage commission charges from such account(s) but will not be charged an advisory fee from CGAM.

## **ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

CGAM does not charge performance-based fees (*i.e.*, fees calculated based on a share of capital gains upon or capital appreciation of the funds or any portion of the funds of an advisory client). Consequently, CGAM does not engage in side-by-side management of accounts that are charged a performance-based fee with accounts that are charged another type of fee (such as assets under management).



## ITEM 7: TYPES OF CLIENTS

CGAM provides investment management and complementary financial analysis services to individuals, pension and profit sharing plans, trusts, estates, corporations and business entities.

CGAM imposes an account minimum of \$250,000 per household to open an account, but does reserve the right to accept or decline a potential client for any reason in its sole discretion. CGAM also can provide discounts to friends and family of the Firm at CGAM's sole discretion. Prior to engaging CGAM to provide any of the investment advisory services described in this Brochure, the client will be required to enter into one or more written agreements with CGAM setting forth the terms and conditions under which CGAM shall render its services.

If a Client's account is a pension or other employee benefit plan governed by the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), CGAM can be a fiduciary to the plan. In providing our investment management services, the sole standard of care imposed upon us is to act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. CGAM will provide certain required disclosures to the "responsible plan fiduciary" (as such term is defined in ERISA) in accordance with Section 408(b)(2), regarding the services we provide and the direct and indirect compensation we receive by such clients. Generally, these disclosures are contained in this Form ADV Part 2A, the client agreement and/or in separate ERISA disclosure documents, and are designed to enable the ERISA plan's fiduciary to: (1) determine the reasonableness of all compensation received by CGAM; (2) identify any potential conflicts of interests; and (3) satisfy reporting and disclosure requirements to plan participants.

## ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### A. Methods of Analysis and Investment Strategies

Generally, CGAM uses a variety of analytical information to assist with its security analysis. Such information can include fundamental and technical analysis. The primary sources of information used by CGAM include market news reports, financial publications, outside research reports, prospectuses, and interpretation of exchange market data.

The investment strategies CGAM can pursue on behalf of clients can include long- and short-term purchases, shorting strategies, option writing including covered options, uncovered options or spreading strategies. CGAM can recommend, on occasion, redistributing investment allocations to diversify the portfolio in an effort to reduce risk and increase performance. CGAM can recommend specific investments to increase sector weighting and/or dividend potential, or can recommend employing cash positions as a possible hedge against market movement which can adversely affect a client's portfolio. Additionally, CGAM can recommend selling positions for reasons that include, but are not limited to, harvesting capital gains or losses, business or sector risk exposure to a specific security or class of securities, overvaluation or overweighting of the position(s) in a client's portfolio, change in the risk tolerance of the client, or any risk deemed unacceptable for the client's risk tolerance.

## **B. Material Risks**

Investing in securities involves a significant risk of loss. CGAM's investment recommendations are subject to various markets, currency, economic, political and business risks, and such investment decisions perhaps will not always be profitable. Clients should be aware that there can be a loss or depreciation to the value of the client's account, which clients should be prepared to bear. There can be no assurance that the client's investment objectives will be obtained and no inference to the contrary should be made. Clients are advised that they should only commit assets for management that can be invested for the long term, that volatility from investing can occur, and that all investing is subject to risk and consequently, the value of the client's account can at any time be worth more or less than the amount invested.

Generally, the market value of stocks will fluctuate with market conditions, and small-stock prices generally will fluctuate more than large-stock prices. The market value of bonds will generally fluctuate inversely with interest rates and other market conditions prior to maturity and will equal par value at maturity. Interest rates for bonds can be fixed at the time of issuance, and payment of principal and interest can be guaranteed by the issuer and, in the case of U.S. Treasury obligations, backed by the full faith and credit of the U.S. Treasury. The market value of Treasury bonds will generally fluctuate more than Treasury bills, since Treasury bonds have longer maturities. Investments in overseas markets also pose special risks, including currency fluctuation and political risks, and it can be more volatile than that of a U.S. only investment. Such risks are generally intensified for investments in emerging markets. Small-cap stocks can be subject to a higher degree of risk than more established companies' securities. The illiquidity of the small-cap market can adversely affect the value of these investments. In addition, there is no assurance that a mutual fund or an ETF will achieve its investment objective. Past performance of investments is no guarantee of future results.

CGAM invests primarily in mutual funds and ETFs. Overall "market risk" poses the greatest potential danger for investors in stocks funds. Stock prices can fluctuate for a broad range of reasons - such as the overall strength of the economy or demand for particular products or services. A sector stock fund (which invests in a single industry, such as telecommunications) is at risk that its price will decline due to developments in its industry. A stock fund that invests across many industries is more sheltered from this risk.

For most funds, investors must pay sales charges, annual fees, and other expenses regardless of how the fund performs. And, depending on the timing of their investment, investors can or will also have to pay taxes on any capital gains distribution they receive.

From time to time CGAM investment opportunities can employ shorting or option strategies. The following risks are associated with these types of transactions:

- Short-term purchases. A short-term purchase is a purchase of a security or investment product with the intent of possibly selling it within one year of its purchase.
- Short-term trading. Short-term trading focuses on opportunistic trades – holding investments for only brief periods. Frequent trading can affect investment

performance, particularly through increased brokerage and other transaction costs and taxes.

- Short sales. Short selling is a technique used to profit from the falling price of a stock. Short selling can translate into high portfolio volatility.
- Option buying. This is a basic options strategy where investors buy a call or put option with the hope that the price of the underlying stock will move far enough to cover the premium paid for the option.
- Option writing. Investors can sell options in order to obtain additional income from premiums paid by the option buyer. The positive potential of this strategy is limited because the most money the investor can earn is the amount of the option premium.
- Uncovered Options and Spreading strategies. Uncovered options trading can be more risky than writing covered call options. The potential loss is theoretically unlimited. An option spread involves combining two different option strikes as part of a limited risk strategy.

Prior to entering into an agreement with CGAM, a client should carefully consider that volatility from investing in the stock and bond market can occur and that over time the client's assets can fluctuate and at any time be worth more or less than the amount invested.

## **ITEM 9: DISCIPLINARY INFORMATION**

Registered investment advisers such as CGAM are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or prospective client's evaluation of CGAM or the integrity of its management. CGAM does not have any such legal or disciplinary events and thus has no information to disclose with respect to this Item.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

No investment adviser representatives of CGAM are currently engaged in any outside business activities or have any outside affiliations. Please note that while Messrs. Clark and Cedergreen currently are not appointed with any insurance carrier or agency, their insurance licenses remain active. Please refer to each individual's Form ADV Part 2B.

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

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

CGAM has adopted a Code of Ethics ("Code") in compliance with Rule 204A-1 under the Investment Advisers Act of 1940, as amended. The Code establishes standards of conduct for CGAM's supervised persons and includes general requirements that such supervised persons comply with their fiduciary obligations to clients and applicable securities laws, and specific

requirements relating to, among other things, personal trading, insider trading, conflicts of interest and confidentiality of client information. It contains written policies reasonably designed to prevent the unlawful use of material non-public information by CGAM or any of its associated persons.

Because CGAM's personnel (called "Access Persons") can transact in the same securities for their personal accounts as they can buy or sell for client accounts, it is important to mitigate potential conflicts of interest. To that end, CGAM has adopted personal securities transaction policies in the Code which all CGAM associated persons must follow. The Code requires that certain of CGAM's personnel (called "Access Persons") report their personal securities holdings and transactions and obtain pre-approval of certain investments, including initial public offerings and limited offerings. The Code also requires supervised persons to report any violations of the Code promptly to the Firm's Chief Compliance Officer ("CCO"). Each supervised person receives a copy of the Code and any amendments to it and must acknowledge in writing having received the materials. Annually, each supervised person must certify that he or she complied with the Code during that year. CGAM will provide a copy of its Code of Ethics to any client or prospective client upon request.

#### **B. Participation or Interest in Client Transactions**

Because the Code would permit associated persons of CGAM to invest in the same securities as clients, there is a possibility that the associated person could benefit from market activity by a client in a security held by that person. Employee trading is continually monitored under the Code, with an eye to reasonably prevent conflicts of interest between CGAM and its clients.

Based upon a client's stated objectives, CGAM can, under certain circumstances, recommend the purchase or sale of securities in which CGAM or its affiliates have also invested in personally. Such recommendations will only be made to the extent that they are reasonably believed to be in the best interests of the client. Additionally, as part of CGAM's fiduciary duty to clients, CGAM and its associated persons will endeavor at all times to put the interests of the clients first and at all times are required to adhere to the Firm's Code of Ethics.

It is CGAM's policy not to enter into any principal transactions or agency cross transactions on behalf of client accounts. Principal transactions occur where an adviser, acting as principal for its own account, buys securities from or sells securities to any advisory client. Agency cross transactions occur where a person acts as an investment adviser in relation to a transaction in which the adviser, or an affiliate of the adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Should CGAM ever decide to affect cross-trades between client accounts, it will comply with the provisions of Rule 206(3) of the Advisers Act.

#### **ITEM 12: BROKERAGE PRACTICES**

CGAM does not maintain custody of your assets that we manage. Nevertheless, we can be deemed to have custody of client assets because you give us authority to withdraw assets from your account (*see Item 15 Custody, below*). Client assets must be maintained in an account at a

"qualified custodian," generally a broker-dealer or bank. CGAM currently recommends that clients use Charles Schwab & Co., Inc. ("Schwab"), a FINRA-registered broker-dealer, member SIPC, as the qualified custodian, to maintain custody of client assets and to effect trades for client accounts. CGAM is independently owned and operated and not affiliated with Schwab. Schwab will hold our clients' assets in a brokerage account and buy and sell securities when CGAM instructs them to. While CGAM recommends that you use Schwab as custodian/broker, clients will decide whether to do so when they open an account with Schwab by entering into an account agreement directly with them.

As further described below, factors considered by CGAM in recommending Schwab include but are not limited to, the reasonableness of their commissions, their financial strength, product availability, research and other services available to both the client and the CGAM.

#### **A. Selection Criteria**

CGAM generally places all transactions through Schwab Institutional® division of Charles Schwab & Co., Inc. ("Schwab"). CGAM periodically evaluates the commissions charged and the services provided by the custodian and compare those with other broker-dealers to evaluate whether overall best qualitative execution could be achieved by using alternative custodians.

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

CGAM seeks to select and recommend a custodian/broker who will hold your assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. CGAM considers a wide range of factors, including, among others, these:

- 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);
- capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.);
- breadth of investment products made available (stocks, bonds, mutual 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 them;
- reputation, financial strength and stability of the provider;
- the custodian/broker's prior service to us and our other clients; and
- availability of other products and services that benefit us, as discussed below (*see "Products and Services Available to Us from Schwab"*).

#### **Custody and Brokerage Costs**

Schwab generally does not charge CGAM client accounts separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle

into your Schwab account. Schwab's commission rates applicable to CGAM client accounts were negotiated based on our commitment to maintain CGAM client assets in accounts at Schwab. This commitment benefits you because the overall commission rates you pay are lower than they would be if CGAM had not made the commitment. In addition to commissions, Schwab charges a flat dollar amount as a "trade away" fee for each trade that CGAM executes by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into a Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. In order to minimize trading costs, CGAM will use Schwab to execute trades for your account if CGAM believes it is in your best interest to do so.

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

Schwab Advisor Services is Schwab's business serving independent investment advisory firms like CGAM. They provide CGAM and our clients with access to its 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 our clients' accounts while others help us manage and grow our business. Schwab's support services generally are available on an unsolicited basis (*i.e.*, CGAM does not have to request them) and at no charge to us as long as we keep a total of at least \$10 million of our clients' assets in accounts at Schwab. Below is a detailed description of Schwab's support services:

*Schwab Services that Benefit You.* Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit you and your account.

*Schwab Services that can or will Not Directly Benefit You.* Schwab also makes available to us other products and services that benefit us but perhaps will not directly benefit you or your account. These products and services assist CGAM in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. CGAM can use this research to service all, some or a substantial number of our clients' accounts. In addition to investment research, Schwab also makes available software and other technology that:

- provide access to client account data (such as duplicate trade confirmations and account statements);
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- provide pricing and other market data;
- facilitate payment of our fees from our clients' accounts; and
- assist with back-office functions, recordkeeping and client reporting.

*Schwab Services that Generally Benefit Only Us.* Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- educational conferences and events;
- technology, compliance, legal, and business consulting;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants and insurance providers.

Schwab can provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab also can discount or waive its fees for some of these services or pay all or a part of a third party's fees. In addition, Schwab can provide CGAM with other benefits such as occasional business entertainment of our personnel.

Other potential benefits to CGAM only can or will include occasional business entertainment of personnel of CGAM by Schwab Advisor Services personnel, including meals, invitations to sporting events, including golf tournaments, and other forms of entertainment, some of which can accompany educational opportunities Schwab makes available, arranges and/or pays vendors for products and services rendered to CGAM by independent third parties. While, as a fiduciary, CGAM endeavors to act in its clients' best interests, CGAM's recommendation/requirement that clients maintain their assets in accounts at Schwab can be based in part on the benefit to CGAM of the availability of some of the foregoing products and services and other arrangements and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which can create a potential conflict of interest.

### **CGAM's Beneficial Interest in Schwab's Services**

The availability of these services from Schwab benefits us because CGAM does not have to produce or purchase them. CGAM 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. The \$10 million minimum can give CGAM an incentive to recommend 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. This is a potential conflict of interest.

CGAM believes, however, that our selection of Schwab as custodian/broker is in the best interests of our clients. It is primarily supported by the scope, quality and price of Schwab's services (based on the factors discussed above – see *"How We Select Custodians/Brokers"*) and not Schwab's services that benefit only us. We have approximately \$200 million in client assets under management, and do not believe that maintaining at least \$10 million of those assets at Schwab in order to avoid paying Schwab quarterly service fees presents a material conflict of interest.

## **B. Best Execution**

It is the policy and practice of CGAM to strive for the best price and execution that are competitive in relation to the value of the transaction ("best execution"). In order to achieve best execution, CGAM will use its best judgment to choose the broker-dealer most capable of providing the brokerage services necessary to obtain the best overall qualitative execution. Although CGAM will strive to achieve the best execution possible for client securities transactions, this does not require it to solicit competitive bids and CGAM does not have an obligation to seek the lowest available commission cost. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the overall best qualitative execution, taking into consideration the full range of a broker-dealer's services, including among other things, the value of research provided, execution capability, commission rates, and responsiveness. Consistent with the foregoing, while CGAM will seek competitive rates, it perhaps will not necessarily obtain the lowest possible commission rates for client transactions. CGAM is not required to negotiate "execution only" commission rates, thus the client can be deemed to be paying for research and related services (*i.e.*, "soft dollars") provided by the broker which are included in the commission rate.

To ensure that brokerage firms recommended by CGAM are conducting overall best qualitative execution, CGAM will periodically (and no less often than annually) evaluate the trading process and brokers utilized. CGAM's evaluation will consider the full range of brokerage services offered by the brokers, which can include, but is not limited to price, commission, timing, research, aggregated trades, capable floor brokers or traders, competent block trading coverage, ability to position, capital strength and stability, reliable and accurate communications and settlement processing, use of automation, knowledge of other buyers or sellers and administrative ability.

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

CGAM's general policy is to comply with the provisions of Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)") when entering into soft dollar arrangements. Section 28(e) recognizes the potential conflict of interest involved in this activity, but generally allows investment advisers to use client commissions to pay for certain research and brokerage products and services under certain circumstances without breaching their fiduciary duties to clients. For these purposes, "research" means services or products used to provide lawful and appropriate assistance to CGAM in making investment decisions for its clients. "Brokerage" services and products are those used to effect securities transactions for CGAM's clients or to assist in effecting those transactions.

Research and other products and services purchased with soft dollars will generally be used to service all of CGAM's clients, but brokerage commissions paid by one client can be used to pay for research that is not used in managing that client's portfolio, as permitted by Section 28(e). In other words, there can be certain client accounts that benefit from the research services, which did not make the payment of commissions to the broker-dealer providing the services.

Brokerage services obtained with soft dollars can include, for example, quotation and communication equipment and services, other order management systems that provide trading



software or provide connectivity to such software, trade analysis software, on-line pricing services, communication services relating to execution, clearing and settlement and message services used to transmit orders.

Research and related services furnished by brokers can include, but are not limited to, written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; financial publications; recommendations as to specific securities; portfolio evaluation services; financial database software and services; computerized news, pricing and statistical services; and discussions with research personnel, along with hardware, software, data bases and other technical and telecommunication services and equipment utilized in the investment management process. Research received by CGAM under such soft dollar arrangements can include both proprietary research (created or developed by the broker-dealer) and research created or developed by a third party.

There can be cases when CGAM can receive both non-research (*e.g.*, administrative, accounting or technology services, etc.) and research benefits from the services provided by broker-dealers. If and when this happens, CGAM will make a good faith allocation between the non-research and research portion of the services received, and will pay "hard dollars" (*i.e.*, CGAM will pay from their own monies) for the non-research portion. In making a good faith allocation between research services and non-research services, a conflict of interest can exist by reason of CGAM's allocation of the costs of such services and benefits between those that primarily benefit CGAM and those that primarily benefit clients. CGAM strives to always put the client's interests first.

As stated above, CGAM can recommend that clients establish brokerage accounts with Schwab to maintain custody of clients' assets and to effect trades for their accounts. Schwab is a SEC-registered broker-dealers and members FINRA/SIPC. While there is no direct link between the investment advice given to clients and CGAM's recommendation to use the custodial or brokerage services of Schwab, certain benefits are received by CGAM due to this arrangement.

## 2. Directed Brokerage

If requested by a client, CGAM can accept written direction from a client regarding the use of a particular broker-dealer to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that broker-dealer, and CGAM will not seek better execution services or prices from other broker-dealers or be able to "batch" client transactions for execution through other broker-dealers with orders for other accounts managed by CGAM and CGAM will have limited ability to ensure the broker-dealer selected by the client will provide best possible execution. As a result, the client can 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, CGAM can decline a client's request to direct brokerage if, in CGAM's sole discretion, such directed brokerage arrangements would result in additional operational difficulties or violate restrictions imposed by other broker-dealers.

### **C. Trade Aggregation and Allocation**

Transactions for each client will be effected independently, unless CGAM decides to purchase or sell the same securities for several clients at approximately the same time. CGAM performs investment management services for various clients, some of which can have similar investment objectives. CGAM can aggregate sale and purchase orders with other client accounts and proprietary (employee) accounts that have similar orders being made at the same time, if in CGAM's judgment such aggregation is reasonably likely to result in an overall economic benefit to the affected accounts. Such benefits can include better transaction prices and lower trade execution costs. CGAM can (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among CGAM's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. If all aggregate orders do not fill at the same price, transactions will generally be averaged as to price and allocated among participating accounts pro rata to the purchase and sale orders placed for each participating account on any given day. If such orders cannot be fully executed under prevailing market conditions, CGAM can allocate the securities traded among participating accounts and each similar order in a manner which it considers equitable, taking into consideration, among other things, the size of the orders placed, the relative cash positions of each account, the investment objectives of the accounts, and liquidity of the security.

### **D. Brokerage for Client Referrals**

In selecting or recommending broker-dealers, CGAM can receive client referrals from a broker-dealer, which creates a potential conflict of interest. This is because CGAM can have an incentive to select or recommend a broker-dealer based on its interest in receiving client referrals rather than on the client's interest in receiving most favorable execution.

To mitigate this conflict, CGAM reviews and monitors execution and services provided to all such CGAM clients to help ensure that the client's accounts are managed as effectively as possible and are receiving best execution.

## **ITEM 13: REVIEW OF ACCOUNTS**

### **A. Periodic Reviews**

CGAM makes every effort to meet with clients in person or over the phone no less than annually to review the client's investment goals and current advisory portfolios. Accounts are reviewed for consistency with the investment strategy and other parameters set forth for the account and to determine if any adjustments need to be made.

### **B. Other Reviews and Triggering Factors**

In addition to the periodic reviews described above, reviews can be triggered by changes in an account holder's personal, tax or financial status. Other events that can trigger a review of an account are material changes in market conditions as well as macroeconomic and company-specific events. Clients are encouraged to notify CGAM and its advisory representatives of any

changes in his/her personal financial situation that might affect his/her investment needs, objectives, or time horizon.

### **C. Regular Reports**

Written brokerage statements are generated no less than quarterly and are sent directly from the account custodian. These reports list the account positions, activity in the account over the covered period, and other related information. Clients are also sent confirmations following each brokerage account transaction unless confirmations have been waived. In addition to the regular statements clients receive from their custodian, CGAM can, on occasion send clients detailed reports concerning relevant account and/or market-related information as well as an inventory of account holdings and account performance, as agreed to with the client. Clients are urged to compare the statements received from CGAM to those received from the account custodian.

## **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

### **A. Economic Benefits Received**

As discussed more fully under Item 12, CGAM can recommend certain broker-dealers in return for investment research products and/or other services which can or will assist CGAM in providing its investment advisory services. The receipt of such services can be deemed to be the receipt of an economic benefit by CGAM, and although customary, these arrangements give rise to potential conflicts of interest, including the incentive to allocate securities transactional business to broker-dealers based on the receipt of such benefits rather than on a client's interest in receiving most favorable execution.

CGAM receives an economic benefit from Schwab in the form of the support products and services it makes available to us and other independent investment advisers that have their clients maintain accounts at Schwab. These products and services, how they benefit us, and the related conflicts of interest are described above (*see Item 12 – Brokerage Practices*). The availability to CGAM of Schwab's products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

### **B. Compensation for Client Referrals**

Currently, CGAM does not have any client referral agreements in place with outside solicitors.

However, CGAM can, in the future enter into agreements with individuals and organizations, some of whom can be affiliated or unaffiliated with CGAM, that refer clients to CGAM. All such agreements will be in writing and comply with the requirements of Rule 206(4)-3 of the Advisers Act. If a client is introduced to CGAM by a solicitor, CGAM can pay that solicitor a fee in accordance with the requirements of Rule 206(4)-3 of the Advisers Act and any corresponding state securities law requirements. While the specific terms of each agreement can differ, generally, the compensation will be based upon CGAM's engagement of new clients and the retention of those clients and is calculated using a varying percentage of the fees paid to

CGAM by such clients. Any such fee shall be paid solely from CGAM's investment management fee, and shall not result in any additional charge to the client.

Each prospective client who is referred to CGAM under such an arrangement will receive a copy of CGAM's Brochure and a separate written disclosure document disclosing the nature of the relationship between the third party solicitor and CGAM and the amount of compensation that will be paid by CGAM to the third party. The solicitor is required to obtain the client's signature acknowledging receipt of CGAM's Brochure and the solicitor's written disclosure statement.

### **C. Other Compensation**

Currently, CGAM investment advisory representatives do not receive any compensation outside of CGAM.

## **ITEM 15: CUSTODY**

Pursuant to the Investment Advisers Act of 1940, CGAM is deemed to have "constructive custody" of client funds because the Firm has the authority and ability to debit its fees directly from the accounts of those clients receiving CGAM's Investment Advisory Services. Additionally, certain clients have, and can in the future, sign a Standing Letter of Authorization (SLOA) that gives CGAM the authority to transfer funds to a third-party as directed by the client in the SLOA. This is also deemed to give the Firm custody. Custody is defined as any legal or actual ability by the Firm to withdraw client funds or securities. Firms with deemed custody must take the following steps:

1. Ensure clients' managed assets are maintained by a qualified custodian;
2. Have a reasonable belief, after due inquiry, that the qualified custodian will deliver an account statement directly to the client at least quarterly;
3. Confirm that account statements from the custodian contain all transactions that took place in the client's account during the period covered and reflect the deduction of advisory fees; and
4. Obtain a surprise audit by an independent accountant on the clients' accounts for which the advisory firm is deemed to have custody.

However, the rules governing the direct debit of client fees and SLOAs exempts CGAM from the surprise audit rules if certain conditions (in addition to steps 1 through 3 above) are met. Those conditions are as follows:

1. When debiting fees from client accounts, CGAM must receive written authorization from clients permitting advisory fees to be deducted from the client's account.
2. In the case of SLOAs, CGAM must: (i) confirm that the name and address of the third party is included in the SLOA, (ii) document that the third-party receiving the transfer is not related to the Firm, and (ii) ensure that certain requirements are being performed by the qualified custodian.

If client funds or securities are inadvertently received by our firm, they will be returned to the sender immediately, or as soon as practical

Schwab maintains actual custody of your assets. Clients will receive account statements directly from Schwab at least quarterly. They will be sent to the email or postal mailing address the client provided to Schwab. Clients should carefully review those statements promptly when received. Please contact CGAM with any questions.

## **ITEM 16: INVESTMENT DISCRETION**

### **A. Discretionary Authority; Limitations**

Asset Management services are performed by CGAM on a discretionary basis, unless otherwise agreed upon at the inception of the client relationship and memorialized in the client's advisory agreement. In exercising its discretionary authority, CGAM has the ability to determine the type and amount of securities to be transacted and whether a client's purchase or sale should be combined (aggregated) with those of other clients and traded as a "block." Such discretion is to be exercised in a manner consistent with each client's stated investment objectives, risk tolerance, and time horizon. In addition, CGAM's authority to trade securities can be limited in certain circumstances by applicable legal and regulatory requirements. Clients are permitted to impose reasonable limitations on CGAM's discretionary authority, including restrictions on investing in certain securities or types of securities. All such limitations, restrictions, and investment guidelines must be provided to CGAM in writing.

### **B. Limited Power of Attorney**

Unless clients specifically request in writing that CGAM manage all or part of their account on a non-discretionary basis, by signing CGAM's advisory agreement, clients authorize CGAM to exercise full discretionary authority with respect to all investment transactions involving the client's account. Pursuant to such agreement, CGAM is designated as the client's attorney-in-fact with discretionary authority to effect investment transactions in the client's account which authorizes CGAM to give instructions to third parties in furtherance of such authority.

## **ITEM 17: VOTING CLIENT SECURITIES**

CGAM's policy and practice is to not vote proxies on behalf of its clients and therefore, shall have no obligation or authority to take any action or render any advice with respect to the voting of proxies solicited by or with respect to issuers of securities held in a client's account, unless the account is an ERISA account and such authority has not been delegated to another named fiduciary in the plan's written documents. Consequently, the client retains the responsibility for receiving and voting all proxies for securities held within the client's account. CGAM shall not be deemed to have proxy voting authority solely as a result of providing advice or information about a particular proxy vote to a client.

CGAM typically does not advise or act for clients with respect to any legal matters, including bankruptcies and class actions, for the securities held in clients' accounts.

## **ITEM 18: FINANCIAL INFORMATION**

CGAM does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance and therefore is not required to provide, and has not provided, a balance sheet. CGAM does not have any financial commitments that impair its ability to meet contractual and fiduciary obligations to clients, and has not been the subject of a bankruptcy proceeding.