

# SMH CAPITAL ADVISORS LLC

SMH Capital Investments Program (SMHCI Program)

## Wrap Fee Program Brochure

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This wrap fee program brochure provides information about the qualifications and business practices of SMH Capital Advisors LLC. If you have any questions about the contents of this brochure, please contact the Chief Compliance Officer, Lisa Haley at the above telephone number. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

SMH Capital Advisors LLC (“SMHCA”) is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser.

Additional information about SMHCA is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 1: Material Changes**

This section discusses any material changes to our Brochure since the date of our 2021 annual update to the Brochure which was March 30, 2021.

There were no material changes in 2021 other than the change of Chief Compliance Officer in June 2021.

In June 2021, Rhonda Davis, the outsourced CCO resigned and was replaced by Lisa Haley.

**Currently, our wrap fee program brochure may be requested by contacting Lisa Haley, COO at 800-2784308 or lhaley@smhca.com. Our brochure is also available on our web site [www.smhca.com](http://www.smhca.com), also free of charge.**

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## **Item 2: Services, Fees and Compensation**

### **Services**

For clients that would like to access strategies not offered through the SMHCA Separately Managed Account Program, or for those clients who wish to access SMHCA strategies without the use of a third-party advisor or platform, the SMHCI Program is available. A client participating in the SMHCI Program enters into an SMHCI Program Agreement with SMHCA. Clients wishing to participate in the SMHCI Program must utilize the custody and clearing services of Wells Fargo Clearing Services LLC (“WFCS”), formerly known as First Clearing, LLC, (“FCC”). The minimum investment required to establish a program account depends on the selected strategy as outlined on the SMHCI Program Agreement. SMHCA may waive the minimum account size at its discretion.

The SMH Capital Investments Program (“SMHCI Program”) is a wrap fee program sponsored by SMHCA. The client retains SMHCA for the purpose of opening an investment advisory account (“Account”) and participating in the SMHCI Program. SMHCA will invest participating client assets in one of the strategies described below in exchange for an all-inclusive asset-based fee (“Wrap Fee”).

SMHCA and its Investment Advisor Representatives (“IARs”) consider the client’s financial situation, goals and investment objectives, risk tolerance, time horizon and other relevant factors, as described by the client in assisting the client to select a strategy. The client should inform the IAR if changes occur in investment objectives or financial situation, or if the client wishes to impose reasonable restrictions on the account(s) which are not fundamentally inconsistent with the client’s investment objective or the nature or operation of SMH Program. Not less than annually, client portfolios are reviewed with clients by the IAR to ensure strategy continues to meet the client’s investment objectives and to determine if the client wishes to impose any new restrictions on the management of the account.

### **Fees and Compensation**

#### **Wrap Fee**

The Wrap Fee includes a portfolio administration fee which includes discretionary investment advice including investment selection and allocation, and annual rebalancing. The other costs included are quarterly reporting, account service requests, brokerage commissions, transaction costs and clearance and custody of assets.

The Wrap Fee is charged quarterly, in advance. Fees will be deducted directly from client’s managed account. Quarterly fees are payable on the first business day of each calendar quarter, based on the market value, including accrued interest and any cash or money balances of the account, on the last reporting day of the previous quarter. If a client has a margin balance, the quarterly fee is calculated based on the long market value. Market values and account information are downloaded into SMHCA’s portfolio management software each day. The third-party pricing services used as part of this download may differ from those of the custodian. Performance and billing are based upon the values in the portfolio management software as reported by the third-party pricing service with accrued interest as calculated by SMHCA.

Fees are negotiable. When calculating the Wrap Fee, multiple accounts held within the same family are aggregated to determine the lowest percentage fee if all accounts are managed as one relationship.

Clients that terminate their account before the end of a quarter will receive a refund for any pre-paid services that were not received. Such refunds are calculated on a per diem basis and are due within thirty days of termination of the agreement.

The Wrap Fee is based on the amount of money the client invests in the Program and is not dependent on the amount of trading in the account or the advice given in any particular time period. The client should be aware that lower fees for comparable services may be available in other SMHCA programs or from other sources. Under a wrap program, the wrap program sponsor arranges for the investor participant to receive investment advisory services, the execution of securities brokerage transactions, custody and reporting services for a single specified fee. Participation in a wrap program may cost the participant more or less than purchasing such services separately. A wrap program is different from when SMHCA provides services on an unbundled basis discussed above, i.e. separate fees for investment advisory and transactions. In a transaction-based pricing arrangement, the broker-dealer/custodian assesses a separate commission/transaction fee for each account transaction. When offering services in conjunction with the SMHCI Wrap Program, SMHCA will not receive any portion of any transaction fees received by SMH Capital Investments LLC. SMHCA's Chief Compliance Officer, Lisa Haley, is available to address any questions that a client may have regarding participation in the SMHCI wrap fee program.

## SMHCI Program Fee Schedules

### Individual Strategies

<b>SMHCA Concentrated Aggressive Growth</b>	<b>SMHCA Alternative Financial Services</b>	<b>SMHCA Tactical Equity</b>	<b>SMHCA Catalyst Allocation  SMHCA Absolute Income</b>
3.00%	2.00%	1.50%	1.25%

<b>SMHCA Growth, SMHCA Balanced Growth and SMHCA Balanced Growth &amp; Bonds</b>	<b>SMHCA Total Return Income</b>	<b>SMHCA Municipal Income</b>
1.00%	1.00%	1.00%

<b>Assets Under Management</b>	<b>SMHCA Diversified Income and SMHCA Socially Responsible Diversified Income</b>	<b>SMHCA High Income and SMHCA Socially Responsible High Income</b>
Up to \$1 million	1.25%	1.25%
Next \$4 million	1.00%	1.00%
Next \$5 million	0.80%	0.80%

#### **Strategic Allocations**

<b>SMHCA Conservative Growth and Income and SMHCA Tax Free and Growth</b>	<b>SMHCA Moderate Income and Growth  SMHCA High Income and Growth</b>	<b>SMHCA Growth</b>	<b>SMHCA Aggressive Growth</b>
1.25%	1.50%	1.50%	2.00%

### **Payment Method**

The client authorizes SMHCA to collect the Wrap Fee and authorizes the custodian to deduct the Wrap Fee from the account under the SMHCI Program Agreement. All fees will be noted on the client's custodial account statements. If the account does not hold cash or money market balances sufficient to cover the Wrap Fee, the client may deposit additional funds by the due date. If no such deposit is made, SMHCA will liquidate securities in the account in amounts sufficient to cover such fees. Liquidation may cause the client to incur taxes and other costs.

### **Changes to Fees**

SMHCA may change the fee schedule at any time by giving 30 days prior written notice to the client. Following the 30-day notice period, the new fee schedule will become effective unless the client terminates the SMHCI Program Agreement. The client's continued acceptance of the services will constitute consent to changes in the Wrap Fee, including an increase in the amount charged.

### **Other Fees and Expenses**

SMHCA may execute client transactions through its affiliated broker/dealer, SMH Capital Investments LLC.

SMH Capital Investments LLC receives commissions and fees for executing securities transactions on behalf of SMHCA clients. In addition, SMH Capital Investments LLC may receive compensation in the form of 12b-1 fees from investment companies (i.e., mutual funds, including affiliated mutual funds) that SMHCA recommends to its clients. This practice creates a conflict of interest as it provides an incentive for SMHCA to recommend a product based on the possible compensation payable to SMH Capital Investments LLC. Further, in its capacity as sub-adviser or adviser to a mutual fund, SMHCA receives management fees and SMH Capital Investments LLC receives 12b-1 fees on the same mutual fund assets.

Each mutual fund in which the client may invest in the account also bears its own fees and expenses as disclosed in the applicable prospectus or product description. The Wrap Fee does not cover fees or expenses charged by any mutual fund held in the account. In addition, the Wrap Fee does not include debit balances, wire transfer fees, overnight check fees, margin interest, account transfer fees, IRA and retirement plan fees, SEC fees, 12b-1 fees for certain money market funds, or other fees or taxes required by law.

Client accounts will be held at Wells Fargo Clearing Services LLC (“WFCS”). WFCS automatically sweeps uninvested cash into a variety of money market funds, including FDIC-insured funds. WFCS does not charge a fee for this sweep service; however, money market funds do have internal fees and expenses. SMHCA will receive monthly compensation based on the average amount of client assets in the money market funds.

### **Item 3: Account Requirements and Types of Clients**

#### **Account Requirements**

The minimum investment required to establish a program account depends on the selected strategy as outlined on the SMHCI Program Agreement. SMHCA may waive the minimum account size at its discretion. The client may make additions to or withdrawals from the account at any time. Withdrawals which cause material reductions in the value of the account could cause SMHCA to terminate the account. The SMHCI Program is designed as long-term investment vehicle and asset withdrawals may impair the ability to achieve client’s investment objectives.

Clients wishing to participate in the SMHCI Program must utilize the custody and clearing services of WFCS. SMH Capital Investments LLC, the broker/dealer of SMHCA has entered into an agreement with WFCS, an unaffiliated broker/dealer to provide the following services: (a) maintain custody of all account assets; (b) perform clearance of all purchase and sale orders as directed to SMH Capital Investments LLC; (c) perform all custodial functions customarily performed with respect to the account, including but not limited to the crediting of interest and dividends on account assets; (d) forward to Client and to SMHCA purchase and sale confirmations and account statements; (e) charge and collect Wrap Fees on SMHCA’s behalf; and (f) accept, pursuant to SMHCA’s instructions, deposits to and withdrawals from the account.

Client acknowledges that the Custodian does not assist Client in selecting SMHCA or any investment or in determining the suitability of investments.

The Custodian will send at least quarterly a statement to Client detailing all account activity, including deduction of the Wrap Fee. Client may elect to receive custodial account statements and confirmations electronically in lieu of paper confirmations and statements. SMHCA urges the client to carefully review such statements and compare such official custodial records to the account statements that we may provide. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Types of Clients**

The SMHCI Program is offered to individuals, trusts, estates, charitable organizations, pensions, profit sharing plans and small businesses.

## **Item 4: Portfolio Manager Selection and Evaluation**

The SMHCA Portfolio Management Team manages strategies for the SMHCA sponsored wrap program in the SMHCI Program. SMHCA does not select or utilize the services of any third-party portfolio manager in the SMHCA sponsored wrap program.

## **Performance Calculation**

Using SMHCA's internal portfolio accounting software, investment performance figures are calculated in accordance with the Global Investment Performance Standards ("GIPS®"). SMHCI Program performance information is calculated and included in composites with accounts participating in wrap fee programs not sponsored by SMHCA. The overall performance of each strategy is reviewed on a monthly basis using outlier reports. Specific policies and procedures for valuing portfolios, calculating performance and preparing compliant presentations are available upon request. SMHCA is independently verified by ACA Compliance Group ("ACACG"), formerly Ashland Partners & Company LLP ("Ashland"). Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. In addition, at the selection of senior management, certain wrap fee program composites may be performance examined by ACACG.

## **Investment Strategies**

SMHCA offers fourteen individual strategies and six strategic allocations in a wrap fee structure in the SMHCI Program.

Individual strategies are individual wrap fee accounts managed to the model of the strategy. Individual strategy options include: SMHCA Diversified Income, SMHCA Socially Responsible Diversified Income, SMHCA High Income, SMHCA Socially Responsible High Income, SMHCA Total Return Income, SMHCA Municipal Income, SMHCA Tactical Equity, SMHCA Concentrated Aggressive Growth, SMHCA Catalyst Allocation, SMHCA Absolute Income and SMHCA Alternative Financial Services. Clients may choose to allocate 100% of the account to an individual strategy or they may choose a strategic allocation, where portions of the account are allocated to create a blend of several individual strategies within one account.

The following individual strategies are no longer available to new investors: SMHCA Growth, SMHCA Balanced Growth, SMHCA Balanced Growth & Bonds.

Strategic allocations are individual wrap fee accounts that include a blend of general target percentages of SMHCA individual strategies in the same account. Portions of the account are allocated to several individual strategies within one account. Strategic allocation options include: SMHCA Conservative Income and Growth, SMHCA Moderate Income and Growth, SMHCA High Income and Growth, SMHCA Growth, SMHCA Aggressive Growth, and SMHCA Tax Free and Growth.

The wrap fee for these individual strategies and strategic allocations include, among other costs, brokerage commissions and a portfolio administration fee. For more information about the wrap fee structure and the services included, please reference the SMHCA Part 2A Appendix 1 of Form ADV. Some Portfolios in these strategies may



be implemented using mutual funds that are advised by or otherwise affiliated with SMHCA. SMHCA will purchase Class I shares when available or Class A shares at NAV.

## **Individual Strategies**

**SMHCA Diversified Income:** To take advantage of the benefits of combining high yield with investment grade bonds, this strategy is designed to provide returns over time above investment grade indices with less risk than a pure high yield portfolio. Portfolios are managed to a target, at time of purchase, of 50% investment grade or AAA bonds and 50% high yield bonds (with residual cash). The AAA portion of the portfolio is comprised of Collateralized Mortgage Obligations (CMOs). CMOs are not rated by any of the rating agencies. SMHCA uses the rating for the underlying agency of the bonds to allocate these securities to the investment grade or AAA portion of the portfolio. The AAA bonds purchased will reflect the current credit rating of the United States government, subject to changes of upgrades or downgrades in ratings. SMHCA has the option of increasing the investment grade or AAA bond allocation to as high as 80%, at time of purchase, if it determines that the market dictates such a move.

**SMHCA Socially Responsible Diversified Income:** Portfolios are managed in the same way as the SMHCA Diversified Income except that the SMHCA Socially Responsible Diversified Income strategy will adhere to a socially responsible investment policy, for the high yield portion of the portfolio, that prohibits owning any companies in the investment portfolio that derive more than 50% of their annual revenue from the following industries: alcohol, tobacco, gambling, weapons manufacturing or pornography.

**SMHCA High Income:** Portfolios are managed with a target of 100% high yield corporate and convertible bonds (with residual cash). On rare occasions investment grade bonds may be purchased that, while still rated above high yield, are trading as high yield securities in anticipation of downgrades to follow. This style is designed to provide a higher current yield and total return.

**SMHCA Socially Responsible High Income:** Portfolios are managed in the same way as the High Income except that the Socially Responsible High Income product will adhere to a socially responsible investment policy that prohibits owning any companies in the investment portfolio that derive more than 50% of their annual revenue from the following industries: alcohol, tobacco, gambling, weapons manufacturing and pornography

**SMHCA Total Return Income:** This strategy is geared for long-term growth from both income and capital appreciation over a 10-year period, or a full market cycle. Portfolios are invested in mutual funds. (See “Catalyst Funds” section for important disclosure information regarding the Catalyst Mutual Funds.)

**SMHCA Municipal Income:** This strategy is managed to a target of 100% municipal bonds with an objective of providing tax advantaged income. Portfolios are invested in closed-end funds and Exchange Traded Funds.

**SMHCA Tactical Equity:** This strategy is managed using proprietary technical indicators. Focusing primarily on the securities within the MSCI EAFE, MSCI Emerging Market Index, S&P 500, NASDAQ 100, Barclays Aggregate Bond and the BoFA Merrill Lynch High Yield Index, technical indicators will dictate whether portfolios will be invested in either bond or equity based exchange traded funds.

**SMHCA Absolute Income:** This composite consists of income oriented closed end funds trading at 10% or greater discounts from Net Asset Value, Business Development Companies trading at 10% discounts from their reported NAV, Real Estate Investment Trusts, high yield corporate bonds trading at 5% discount from par, high dividend equity securities, and to a limited extent restructurings and equity closed end mutual funds. In the event that opportunities do not exist in management’s opinion, they may invest in cash or money market equivalents or ETF’s with duration of 5 years or less.

**SMHCA Concentrated Aggressive Growth:** This strategy is managed using proprietary, fundamental as well as technical indicators, focusing primarily on securities traded on a national market exchange with market caps above 500 million. This is a concentrated portfolio; one position can make up to 33% of the account at the time of purchase.

**SMHCA Catalyst Allocation:** The strategy is designed to provide a diversified portfolio utilizing the Catalyst Fund family. (See “Catalyst Funds” section for important disclosure information regarding the Catalyst Mutual Funds.)

**SMHCA Alternative Financial Services:** This strategy is managed to a 100% target in the non-traditional bank and insurance financial sectors. This strategy will focus on alternative asset managers, non-traditional lenders, mortgage services, business development companies and other financial sector participants. Portfolios will invest in individual equity positions.

**SMHCA Growth:** Portfolios are invested in individual equities, mutual funds, and dividend paying stocks. This strategy is designed for clients seeking long-term capital appreciation within a diversified portfolio of equities. The majority of the portfolio is concentrated in growth oriented mutual funds. (See “Catalyst Funds” section for important disclosure information regarding the Catalyst Mutual Funds.) (Not available to new investors.)

**SMHCA Balanced Growth:** Portfolios are invested in mutual funds, dividend paying stocks, individual equities, and high yield bonds. This strategy is for clients seeking long-term wealth accumulation or moderate income. Typically, at least one-third of the portfolio is concentrated in income producing securities with the balance in individual equities and growth oriented mutual funds. (See “Catalyst Funds” section for important disclosure information regarding the Catalyst Mutual Funds.) (Not available to new investors.)

**SMHCA Balanced Growth & Bonds:** Portfolios are invested in mutual funds, dividend paying stocks, individual equities, investment grade and high yield bonds. This strategy is for clients seeking long-term wealth accumulation or moderate income. Typically, at least one-third of the portfolio is concentrated in income producing securities with the balance in individual equities and growth oriented mutual funds. (See “Catalyst Funds” section for important disclosure information regarding the Catalyst Mutual Funds.) (Not available to new investors.)

## **Strategic Allocations**

Strategic allocations are individual wrap fee accounts that include a blend of general target percentages of SMHCA individual strategies in the same account. Portions of the account are allocated to several individual strategies within one account. Descriptions below contain the general target percentage allocated to each individual strategy within the client account. Clients should refer to the individual strategy descriptions above for a complete description of each how each portion of the account will be managed.

**SMHCA Conservative Income and Growth:** 60% SMHCA Diversified Income with SMHRT, 30% SMHCA Tactical Equity, and 10% SMHCA Concentrated Aggressive Growth.

**SMHCA Moderate Income and Growth:** 60% SMHCA Total Return Income, 30% SMHCA Tactical Equity, and 10% SMHCA Concentrated Aggressive Growth.

**SMHCA High Income and Growth:** 60% SMHCA High Income, 30% SMHCA Tactical Equity, and 10% SMHCA Concentrated Aggressive Growth

**SMHCA Growth:** 70% SMHCA Tactical Equity, 20% SMHCA Concentrated Aggressive Growth, and 10% SMHCA Alternative Financial Services

**SMHCA Aggressive Growth:** 50% SMHCA Tactical Equity, 30% SMHCA Concentrated Aggressive Growth 20% SMHCA Alternative Financial Services

SMHCA Tax Free and Growth: 60% SMHCA Municipal Income, 30% SMHCA Tactical Equity and 10% SMHCA Concentrated Aggressive Growth

## **Methods of Analysis and Investment Selection**

SMHCA supervises and directs all investment duties with respect to assets held in the account pursuant to the investment strategy selected. SMHCA invests and reinvests account assets in a broad range of investments including but not limited to investment company securities including but not limited to closed end and open end mutual funds; including no load mutual funds or loaded funds and affiliated mutual funds, exchange traded funds, publicly traded funds, publicly traded REIT's, common and preferred stock, American Depositary Receipts, Real Estate Investment Trusts; Publicly Traded Business Development Companies ("BDCs"), corporate bonds, US Government and government agency bonds, collateralized mortgage obligations, options, cash and money market funds as it deems in the best interest of the Client consistent with the investment strategy.

Pursuant to the SMH Program Agreement that the client executes, SMHCA is granted limited discretionary authority to implement client-approved investment strategies. The client acknowledges that transactions for different Account(s) or for other clients' accounts may not be made at the same time, may be made on different days, and may be made over multiple days. In handling purchases and liquidations, SMHCA will execute transactions without regard to pending dividend or capital gains distributions, stock splits, mergers or other corporate or financial events.

Clients may impose reasonable restrictions on the management of their account. Restrictions must be provided in writing and included in the client's written agreement with SMHCA. Restrictions are subject to SMHCA's approval prior to accepting an account. When imposing restrictions, a client may request that particular securities or types of securities not be purchased, or that such securities are to be sold if held in the account. However, a client cannot request that particular securities be purchased for the account. SMHCA reserves the right, in its sole discretion, to reject any account should the client request unreasonable or overly restrictive conditions.

## **High Yield Process**

SMHCA adheres to a bottom-up value investment style with a primary focus on the balance sheet of the businesses. Our High Yield process consists of three disciplines.

1. In the first discipline, SMHCA attempts to reduce credit risk through financial analysis of the inherent value and a focus on tangible asset-backed debt. 2. In the second discipline, SMHCA attempts to ensure that there is an adequate return for the risk. Bonds are screened to meet SMHCA's predetermined levels of an adequate yield over treasuries in an effort to compensate for the risk. Then SMHCA selects those securities that provide the best relative value while avoiding paying too much for the securities purchased. 3. Finally, in the third discipline, SMHCA attempts to reduce the systematic (or market) risk. SMHCA attempts to avoid being too much like "the market," i.e. returns should not simply be similar to the index for the high yield bond asset class. Statistically, most of the diversification of a portfolio has been shown to come from less than the first 20 holdings. By keeping a focused portfolio of generally 35 issuers or less, SMHCA chooses only its "best picks" for the portfolio. This results in 25 to 35 well-researched positions, an average BB to B credit range (considered non-investment grade and highly speculative by Moody's and S&P), and an average duration between 3 and 6 years. A single position will not account for more than 5% of an entire portfolio at cost.

## **AAA Process**

(SMHCA Diversified Income, SMHCA Socially Responsible Diversified Income)

The AAA portion of the portfolios is comprised of Collateralized Mortgage Obligations (CMOs). CMOs are not rated by any of the rating agencies. SMHCA uses the rating for the underlying agency of the bonds to allocate these

securities to the AAA portion of the portfolios. The AAA bonds purchased will reflect the current credit rating of the United States government, subject to changes of upgrades or downgrades in ratings.

CMO interest payments are guaranteed by the respective government enterprises, Freddie Mac (FHLMC) and Fannie Mae (FNMA). Agency (or Government sponsored Enterprise (GSE)) bonds are not normally rated. GSE bonds are not explicitly backed by the full faith and credit of the U.S. Government, but they have implied government backing and an implied Aaa/AAA rating. As of September 7, 2008 FNMA, and FHLMC are currently under conservatorship of the Federal Housing Finance Agency and have received financial assistance from the U.S. Treasury. Please request an Investor's Guide to Mortgage Backed Securities and Collateralized Mortgage Obligations (CMOs) for more information.

## **Methods and Strategies**

SMHCA has developed several propriety systems that include charting, fundamental analysis as well as use of technical indicators to make buy and sell decisions within the equity and bond markets. SMHCA obtains information from various sources for use in its analysis. The sources of information include: financial newspapers and magazines; inspections of corporate activities; research materials prepared by others; corporate rating services; annual reports, prospectuses, filings with the SEC; company press releases; Bloomberg; the Internet; and disclosure documents of money managers.

SMHCA uses various investment strategies to implement investment advice given to clients. These strategies include: long-term purchases (securities held at least a year); short-term purchases (securities sold within a year); trading (securities sold within 30 days); short sales; margin transactions; option writing, including covered, uncovered, or spreading strategies; market-based instruction; and diversified portfolios suited to client-specific risk tolerances and investment objectives.

## **Trading Authorization and Reallocation**

Once a strategy has been selected, SMHCA receives discretionary authority, via the SMHCI Program Agreement, to select the identity and amount of securities to be bought or sold, the broker or dealer to be used and the commission rates to be paid. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client.

SMHCA Portfolio Management Team systematically monitors investment strategies on a daily basis. Changes affecting a particular investment strategy or will trigger changes to all client portfolios following that strategy.

## **Client Securities Transactions**

SMHCA supervises and directs the investments of client accounts subject to limitations that a client may impose in writing. Absent any client-imposed restrictions, SMHCA has the authority to determine, without obtaining specific client consent, the securities and amount of such securities to be bought or sold, the broker or dealer to be used, and the commission rates to be paid.

Because SMHCA may provide the same or similar professional portfolio management services on a discretionary basis to a large number of advisory clients, SMHCA will comply with the following guidelines to ensure that each account is separately managed and to make certain that each client receives individually tailored investment advice: (i) Each client's account will be managed on the basis of the client's financial situation, investment objectives and instructions; (ii) SMHCA will obtain sufficient information from the client to be able to provide individualized investment advice; (iii) SMHCA personnel will be reasonably available to consult with the client when SMHCA is the sponsor or the portfolio manager of the account; (iv) The client will be permitted to impose reasonable restrictions on the management of the account; (v) The client will be provided with at least a quarterly custodial account

statement containing a description of all account activity; and (vi) Each client will maintain a separate account retaining indicia of ownership of all securities and funds in the account, although client securities may be held in nominee or street name.

SMHCA may place securities transactions for SMHCI Program accounts through its broker/dealer, Sanders Morris Harris. Sanders Morris Harris will receive commissions from securities SMHCA recommends to clients. In addition, Sanders Morris Harris may receive compensation in the form of 12b-1 fees from investment companies (mutual funds) that SMHCA recommends to clients including mutual funds advised by or otherwise affiliated with SMHCA.

SMHCA may aggregate purchase or sale orders for several clients, including clients that are related to SMHCA or IARs. SMHCA, however, will not aggregate transactions unless it believes such aggregation will result in the best overall execution for all participating clients and is consistent with the terms of the applicable investment advisory agreement. Furthermore, no client account will be favored by SMHCA over any other account. All client accounts participating in an aggregated trade will receive the average price and pay a proportional share of any commission, subject to a minimum ticket charge.

SMHCA will create, prior to entering an aggregated order, a written allocation statement (the "Allocation Statement"). If the aggregated order is filled in its entirety by the end of the day, it will be allocated among the accounts in accordance with the Allocation Statement. If the order is only partially filled at the end of the day, it will be allocated with priority given to clients that did not receive an allocation the last time the bond (or a similar bond) was traded. Efforts are made to avoid placing odd or small lots in client accounts and to avoid excessive ticket charges. In addition, accounts of SMHCA or IARs are excluded from allocations in the event of a partial fill. All aggregated trades will be allocated before the close of business on the trade date.

## **Risk of Loss**

SMHCA does not guarantee the performance of the Account or any specific level of performance. Market values of the securities in the account will fluctuate with market conditions. When the account is liquidated, it may be worth more or less than the amount invested. Investing in securities involves risk of loss that clients should be prepared to bear.

Strategies offered by SMHCA are not suitable for all investors. Clients should consider the risk associated with placing a substantial portion of investable assets into a non-diversified strategy. A portfolio that invests a substantial portion of its assets in a single position or sector of the economy may be subject to greater price volatility or be adversely affected by the performance of that particular industry, sector or company. SMHCA's strategies may not be suitable for all clients, and generally should only be a part of the client's total invested assets. Each client should review the client's investment objectives, risk tolerance, tax objectives, and liquidity needs before selecting an investment style or manager. In making an investment decision, a client should utilize other information sources and the advice of their investment professional. All investments carry a certain degree of risk and no one particular investment style or manager is suitable for all types of investments.

## **Investment Strategy Risks**

SMHCA is a value-oriented investment adviser that specializes in fixed income management. SMHCA also offers advice on various securities including, but not limited to, equity securities including common and preferred stock, including exchange-listed, over-the-counter, and foreign issuer securities; warrants; corporate debt securities; commercial paper; certificates of deposit; municipal securities; investment company securities, including mutual fund shares (including affiliated mutual funds); closed-end funds, Exchange Traded Funds; American Depositary Receipts, Real Estate Investment Trusts; Publicly Traded Business Development

Companies (“BDCs”), United States government and government agency securities; high yield corporate bonds; and collateralized mortgage obligations (“CMOs”).

There are specific risks associated with investing in high yield bonds, CMOs and BDCs. An Investor’s Guide to CMOs, outlining the characteristics and risks of CMOs and important issues to consider prior to investing in CMOs is available upon request. This section discusses some of the specific risks inherent in high yield bonds and CMOs but is not intended to be all-inclusive of such risks. For example, a bond issuer may not be able to meet its principal and interest obligations. In addition, CMOs carry interest rate and prepayment risks and, as such, an investment may lose value. Fluctuations in interest rates may increase or decrease the return of a portfolio.

**High Yield Corporate Bonds.** High yield bonds may not be suitable for all clients. As a result of SMHCA’s investment in high yield securities and unrated securities of similar credit quality, a portfolio may be subject to greater levels of interest rate, credit, and liquidity risk than portfolios that do not invest in such securities. High yield securities are considered predominantly speculative with respect to the issuer’s continuing ability to make principal and interest payments. An economic downturn or period of rising interest rates could adversely affect the market for high yield securities and reduce SMHCA’s ability to sell them without potentially significant price concessions. If the issuer of a security is in default with respect to interest payments or principal payments, the security may lose its entire value.

**CMO Risks.** CMOs may not be suitable for all clients. CMOs carry interest rate and prepayment risks although they have an implied AAA-rated (investment grade). This rating however is subject to upgrades and downgrades based on credit rating of the US Government debt. Rising interest rates tend to extend the duration of mortgage-related securities, making them more sensitive to changes in interest rates (known as duration extension risk). In addition, mortgage-related securities are subject to prepayment risk. When interest rates decline, borrowers may pay off their mortgages sooner than expected. This can reduce returns because SMHCA then has to reinvest the money at the lower prevailing interest rates.

**BDC Risks.** BDCs may not be suitable for all clients. BDCs carry risks including, but not limited to, price volatility, credit risk, liquidity risk and informational risk. BDCs can be subject to significant volatility in price and potential lack of liquidity. SMHCA typically purchases BDCs in institutional accounts only.

**Ratings and Information Risk.** High yield bonds and BDCs are in most cases non-rated or rated below investment grade by rating agencies, (considered highly speculative) Moody’s and S&P. S&P Credit Ratings and Moody’s Credit Ratings are financial service companies that rate stocks, as well as corporate and municipal bonds, according to risk profiles. In some cases, securities may have split ratings, with rating agencies assigning different ratings to the same security. In addition, ratings changes may not be made on a timely basis. There may also be limited information available about or from issuers of non-rated or below investment grade securities.

**Price Volatility Risk.** Market values and yield for securities rated below investment grade may be affected significantly by changes or developments that pertain to the issuer and its industry.

**Credit, Default and Bankruptcy Risk.** Issuers of securities receiving the lowest investment ratings, compared to other higher-grade securities, may have a weakened capacity to make required principal and interest payments. This may be due to over leveraging, potential cash flow challenges or other factors. Issuers of below investment grade securities are more susceptible to default and bankruptcy during a period of prolonged deterioration in economic conditions or other adverse circumstances.

**Liquidity Risk.** Liquidity risk exists when particular investments are difficult to purchase or sell, based on a lack of dealers and traders in the marketplace. Investments in illiquid bonds may reduce a client’s return if SMHCA is unable to sell such illiquid securities at an advantageous time or price. Many of the holdings trade over the counter and the trading volume in some is relatively low. A client should not expect to get same day liquidity as in listed securities. The sooner the client wants his/her cash, the more detrimental it may be to execution prices. Market

values may be volatile in periods of market illiquidity. Depending on the size of the account, a liquidating client often may not receive the full market value of recently priced securities because illiquid securities priced less accurately and are typically valued for larger size transactions

**Economic Uncertainty/Asset Class Cyclicalities.** Opportunities in the high yield bond market vary with economic and liquidity conditions and therefore client expectations should be realistic. As perceived deterioration or improvement of the economy occurs, yield spreads over higher quality issues increase or decrease. The combination of spreads (yields) and trading gains or losses result in realized returns which may be above or below investors' expectations. Clients must understand that SMHCA's investment approach can go in and out of favor for several years at a time.

**Volatility Caused by Concentration of Holdings.** As more names, or diversification, are added to a portfolio, credit risk decreases while systematic risk [correlation with the market] increases. SMHCA's objective is to provide less systematic risk than an index type manager and 'alpha' over a complete cycle. Less names, or a more concentrated portfolio, can bring increased volatility on the upside and downside versus the index or the average high yield mutual fund which might typically holds hundreds of different bonds.

In addition to the risks discussed above, concentrated, sector, and alternative strategies present additional risks which the client should consider. These risks may include but are not limited to:

**Foreign Securities and Currency Risk.** Investments in international and emerging-market securities include exposure to risks such as currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability.

**Derivatives.** Derivatives are securities, such as futures contracts, whose value is derived from that of other securities or indices. Derivatives can be used for hedging (attempting to reduce risk by offsetting one investment position with another) or non-hedging purposes. Hedging with derivatives may increase expenses, and there is no guarantee that a hedging strategy will work.

**Hedging.** While hedging can reduce or eliminate losses, it can also reduce or eliminate gains. Derivative securities are subject to a number of risks, including liquidity risk, interest rate risk, market risk, credit and management risks, and risk of improper valuation. Changes in the value of the derivative, may not correlate perfectly with the underlying asset, rate or index, and the strategy could lose more than the principal amount.

Additionally, alternative investments may carry emerging markets risk, IPO risk, and leverage risk. Alternative assets are frequently asset classes that are referred to as non-correlated (investments that move contrary to or without influence from, broader markets). While including non-correlated assets may result in smoother portfolio performance with less volatility, there are no assurances that non-correlated assets will not decline in value.

Some SMHCA strategies are subject to asset allocation risk, which is risk that selection of and allocation of assets to the securities will cause the strategy to underperform.

Additionally, some of the SMHCA strategies invest in mutual funds, exchange traded funds, and closed end funds. Risk factors will vary from fund to fund.

**Exchange Traded Funds.** ETFs face market-trading risks, including the potential lack of an active market for shares, losses from trading in the secondary markets and disruption in the creation/redemption process of the ETF. Any of these factors may lead to the fund's shares trading at either a premium or a discount to its "net asset value."

**Performance of Underlying Managers.** SMHCA selects mutual funds, closed end funds and ETFs. SMHCA depends on the manager of such funds to select individual investments in accordance with their stated investment strategy.

## **Performance-Based Fees and Side-By-Side Management**

In some cases, SMHCA may enter into performance fee arrangements with qualified clients: such fees are subject to individualized negotiation with each client. Qualified clients are defined as having at least \$1 million of assets under management with SMHCA or a net worth of at least \$2 million. SMHCA structures any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisors Act of 1940 (the “Advisors Act”) in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. In measuring clients' assets for the calculation of performance-based fees, SMHCA includes realized and unrealized capital gains and losses and accrued interest. Performance based fee arrangements may create an incentive for SMHCA to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee-paying accounts over other accounts in the allocation of investment opportunities. SMHCA has procedures designed to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients. SMHCA does not engage in Side-by-Side management; the practice of simultaneously managing mutual funds and hedge funds.

## **Voting Client Securities**

SMHCA's authority to vote client proxies and corporate actions is established by SMHCA's investment advisory agreements or comparable documents. SMHCA's policy is to vote proxies and corporate actions in the best economic interests of its clients. SMHCA endeavors to resolve any conflicts of interest exclusively in the best economic interests of clients.

SMHCA will convene the Compliance Committee to make voting decisions when potential material conflicts of interest exist. If the Committee is unable to reach a unanimous decision, SMHCA will, at its own expense, engage an outside proxy voting service or consultant to make a recommendation and SMHCA will vote in accordance with that recommendation.

Upon request, SMHCA will provide clients with a copy of its procedures regarding proxy and corporate action voting and information on how the client's proxies were voted.

SMHCA does not direct clients' participation in class action lawsuits. SMHCA will determine whether to return any documentation inadvertently received regarding clients' participation in class action lawsuits to the sender, or to forward such information to the respective clients.

Any request for information about proxy voting, corporate actions, or class action lawsuits should be promptly forwarded to the Compliance Officer, Lisa Haley at (lhaley@smhca.com), who will respond to any such requests.

## **Item 5: Client Information Provided to Portfolio Managers**

SMHCA will obtain information prior to opening an account regarding the client's financial situation, goals and investment objectives, risk tolerance, time horizon and other relevant factors, as described by the client in selecting the client's asset allocation model. SMHCA will also inquire as to the client's interest in imposing any reasonable restrictions on the management of the account. The Portfolio Management Team will be provided with information as to the strategy selected by the client and will also be advised of any investment restrictions placed on the account.

The Portfolio Management Team will be advised anytime a client informs the IAR of a change in investment objective or financial circumstances that would result in a change in portfolio selection. The IAR will contact the



client at least annually to determine if any changes have occurred that may affect the ongoing suitability of the portfolio selected and to determine if any new restrictions should be imposed on the account.

In addition, not less than annually, the IAR will review client portfolios with clients to ensure that the strategy continues to meet the client's investment objectives and to determine if the client wishes to impose any new restrictions on the management of the account.

## **Item 6: Client Contact with Portfolio Managers**

Clients are generally free to contact their IAR at any time during normal business hours via telephone, facsimile, mail or email. In-person meetings should be scheduled in advance to ensure availability. A client can arrange a dialogue with a member of the Portfolio Management Team if necessary, by contacting the client's IAR to discuss the proposed agenda items and to arrange for a mutually agreeable date and time.

## **Item 7: Additional Information**

### **Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of SMHCA or the integrity of SMHCA's management. SMHCA has no information applicable to this item.

### **Other Financial Industry Activities and Affiliations**

As disclosed above, SMHCA may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, securities brokers, insurance, etc.), including representatives of SMHCA in their separate individual capacities as representatives of SMH Capital Investments LLC and as licensed insurance agents. The recommendation by SMHCA representatives that a client purchase a securities (as a representative of SMH Capital Investments LLC) or insurance commission product presents a conflict of interest, as the receipt of commissions may provide an incentive to recommend investment products based on commissions to be received, rather than on a particular client's need. These commissions and fees are in addition to SMHCA's management fee and other fees and expenses of investment companies in which a client's account may be invested. No client is under any obligation to purchase any securities or insurance commission products from SMHCA representatives. Clients are reminded that they may purchase securities and insurance products recommended by SMHCA through other non-affiliated broker-dealers and/or insurance agents. SMHCA's Chief Compliance Officer, Lisa Haley, is available to address any questions that a client or prospective client may have regarding the above conflicts of interest.

Certain SMHCA employees who are IARs of SMHCA may also be IARs and registered representatives of SMH Capital Advisors LLC and may receive commissions from the sale of mutual funds, stocks, insurance, and other investments to clients. This presents a conflict of interest to the extent that an IAR recommends the purchase of security, which results in commissions being paid to the IAR as a registered representative of SMH Capital Investments LLC. SMHCA anticipates that future employees may also be registered representatives of SMH Capital Investments LLC.

SMHCA may use funds advised by or otherwise affiliated with SMHCA, such as Catalyst Funds in SMHCI Program client accounts. As sub-adviser to the Catalyst/SMH High Income Fund and Catalyst/SMH Total Return Income Fund, SMHCA receives a percentage of the management fee charged to the funds, based upon fund assets. The

management fee charged to fund investors is in addition to the SMHCA wrap fee charged to client accounts. Such a structure may create a conflict of interest.

SMHCA may select Class C shares of mutual funds for client accounts, including funds advised by or otherwise affiliated with SMHCA, such as the Catalyst Funds. Class C shares will typically have a 12b-1 fee and a sales load, resulting in higher commissions and fees paid to SMH Capital Investments LLC and the registered representative.

SMHCA IARs may also be licensed insurance agents for SMH Capital Investments LLC. If a client elects to purchase an insurance product through an SMHCA employee, which may include life, accident, disability insurance and annuities the IAR may receive a commission from those sales. This presents a conflict of interest to the extent that the IAR recommends the purchase of an insurance product which results in commission being paid to the IAR as an insurance agent.

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

### **Code of Ethics**

SMH Capital Advisors LLC (SMHCA) (“the Firm”), a registered investment adviser, and its employees are dedicated to helping clients achieve their financial goals, enhancing consumers’ knowledge of money matters and serving each client with integrity by providing sound financial guidance in a caring and professional manner. The Firm places a high priority on maintaining its reputation for integrity and professionalism. Our reputation is a vital business asset and the confidence and trust placed in our Firm by our clients is something we value and endeavor to protect at all times.

In support of this mission and to ensure that the Firm employees conduct business fairly, impartially, and in an ethical and proper manner, a Code of Ethics (“Code”) has been adopted by the Firm, and is designed to comply with Section 206 under the Investment Advisers Act of 1940 (“Advisers Act”). SMHCA’s Code is available upon request.

Pursuant to Section 206 of the Advisers Act, both the Firm and its employees are prohibited from engaging in fraudulent, deceptive or manipulative conduct. Compliance with this section involves more than acting with honesty and good faith alone. It means that the Firm has an affirmative duty of utmost good faith to act solely in the best interest of its clients. The purpose of the Code is to preclude activities that may lead to or give the appearance of conflicts of interest, insider trading and other forms of prohibited or unethical business conduct.

The provisions of the Code are not all-inclusive. Rather, they are intended for employees of the Firm as a guide in their conduct. In those situations where an employee may be uncertain as to the intent or purpose of the Code, he/she is advised to consult with the Chief Compliance Officer (“CCO”). The CCO may grant exceptions to certain provisions contained in the Code only in those situations when it is clear beyond dispute that the interests of the Firm’s clients will not be adversely affected or compromised.

The Code establishes rules of conduct for all employees of the Firm and is designed to, among other things, govern personal securities trading activities in the accounts of employees. The Code is based upon the principle that the Firm and its employees shall conduct their affairs, including their personal securities transactions, in such a manner as to avoid:

- (i) Serving their own personal interests ahead of clients;
- (ii) Taking inappropriate advantage of their position with the firm; and
- (iii) Any actual or potential conflicts of interest or abuse of their position of trust and responsibility.

The CCO is responsible for overseeing the Code and, where applicable, providing any revisions and implementing its provisions. The CCO will periodically report to executive management to document compliance with the Code.

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

As addressed below, SMHCA does not buy or sell securities that it owns to advisory clients (principal transactions), nor does it allow agency cross transactions in advisory accounts.

As addressed below, SMHCA representatives may buy or sell for themselves securities they also recommend to clients. These investment products will be bought and sold on the same basis as the clients, according to the clients' stated goals and investment objectives. In all instances, it is presumed that the positions would be so small as to not impact the pricing or performance of the security.

### **Review of Accounts**

SMHCA investment personnel systematically monitor investment strategies on a daily basis. Changes affecting a particular investment strategy or model will trigger changes to all client portfolios following that strategy or model. Portfolios not following a particular strategy or model are also periodically reviewed for investment opportunities. In addition, not less than annually, client portfolios are reviewed with clients by investment IARs to ensure strategy continues to meet the client's investment objectives and to determine if the client wishes to impose any new restrictions on the management of the account.

The overall performance of each portfolio is reviewed on a monthly basis using outlier reports. For client accounts over which SMHCA has discretionary authority, portfolios are reviewed to ensure that each transaction: (1) is suitable to the client's investment objectives, (2) meets the client's quality standards, and (3) complies with the client's investment objectives.

### **Nature and Frequency of Client Reports**

The nature and frequency of reports to clients are determined primarily by the particular needs of each client. SMHCA will issue quarterly reports detailing account holdings unless a client requests more frequent reporting. Clients also receive account statements at least quarterly from the custodian detailing all activity in the client's managed account.

### **Client Referrals and Other Compensation**

From time to time, SMHCA may enter into solicitation agreements with individuals or entities whereby investment advisory accounts are solicited for SMHCA. These agreements require that the solicitor perform his duties in accordance with the Advisers Act and appropriate state regulations and that the solicitor provide each prospective client with Part 2 of SMHCA's Form ADV and the solicitor's separate written disclosure document. SMHCA does not receive compensation from any person for client referrals.

### **Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about its financial condition. SMHCA does not have any financial condition that is likely to impair its ability to meet its contractual and fiduciary commitments to clients. SMHCA has not been the subject of any bankruptcy proceeding.