

## Part 2A of Form ADV: *Firm Brochure*



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This brochure provides information about the qualifications and business practices of Main Street Research LLC ("MSR"). If you have any questions about the contents of this brochure, please contact us at (415) 289-1010 or [msr@ms-research.com](mailto:msr@ms-research.com). 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. Registration as an investment adviser does not imply a certain level of skill or training.

Additional information about MSR is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 114629.

## **Item 2. Material Changes**

MSR updates this document annually or more frequently in the event of certain material changes. This section outlines and summarizes any specific material changes made since the document's previous update. If material changes have been made to the firm's business philosophies and practices, MSR will deliver a copy of this section to its clients within 120 days of its fiscal year to make sure clients are aware of those material changes.

There are no material changes to report since our last filing on March 29, 2023.

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## **Item 4. Advisory Business**

MSR is an SEC-registered investment adviser with its principal place of business located in Sausalito, California, and branch offices in New York, Greenwich and Lakeville, Connecticut. MSR has been registered as an investment adviser since 1993. James E. Demmert is the firm's Founder, Managing Partner, Chief Investment Officer and majority owner.

MSR offers the following services to advisory clients:

- Wealth Management; and
- Consulting.

As of 12/31/2023, we were actively managing \$ 1,816,608,726 of clients' assets on a discretionary basis and no assets on a non-discretionary basis. See additional information regarding our services in this Item below.

### WEALTH MANAGEMENT

Our Wealth Management for families and individuals consists of two components: (i) Financial Planning and (ii) Investment Management. For foundations or institutions, we offer the additional component of providing outside chief investment officer services as needed.

### IRA ROLLOVERS

When appropriate, we will recommend that you roll over assets in a current retirement plan account (such as a 401(k) account or an individual retirement account) to another retirement plan account that we will manage on your behalf. In certain such circumstances, a conflict of interest exists as we have an incentive to recommend the retirement plan account rollover because we can earn more compensation as a result of the rollover recommendation.

Nonetheless, we follow a process designed to ensure that such retirement plan rollover is in your best interest, including comparing your current retirement plan account (where information is available to us) to the retirement plan account being recommended to you.

### FINANCIAL PLANNING:

Financial planning is a comprehensive evaluation of a client's current and future financial state by using currently known variables to predict future cash flows, asset values, and withdrawal plans. Through the financial planning process, all questions, information, and analysis are considered as they impact and are impacted by the client's entire financial and life situation. Clients who elect to receive this service receive a written report that provides the client with a tailored and detailed financial plan designed to help achieve their financial goals and objectives.

In general, the financial plan can address any of the following areas:

- *Personal.* We review family records, budgeting, personal liability, estate information, and financial goals.
- *Tax & Cash Flow.* We analyze the client's income tax and spending and planning for past, current, and future years and illustrate the impact of various investments on the client's current income tax and future tax liability. In addition, we provide tax guidance but always recommend the client consult with their CPA and/or a tax attorney and work closely with those consultants on the clients' individual tax matters.
- *Investments.* We analyze investment alternatives and their effect on the client's portfolio.
- *Insurance.* We review existing policies, if applicable, to evaluate life, health, disability, long-term care, liability, home, and automobile coverage.
- *Retirement.* We analyze current strategies and investment plans to help the client achieve their retirement goals.
- *Death & Disability.* We review the client's cash needs at death, income needs of surviving dependents, and disability income.
- *Estate.* We assist the client in assessing and developing long-term estate planning strategies, including the appropriateness of living trusts, wills, powers of attorney, beneficiary designations, gifts, and asset protection plans.
- *LifeCase.* We provide clients with an easy manner to organize and store important documents (i.e., wills, trust, health proxies/advanced directives, birth certificates, social security cards, financial account statements, tax returns, etc.) digitally on Box, a cloud storage provider for easy "on the go" access.
- *Next Generation Planning.* Our service offering also includes next-generation planning where we assist your children or heirs with a comprehensive, no-cost, wealth management analysis. It involves a broad overview of wealth management, individual analysis of their family assets, and a seasoned "second opinion" of their current wealth and investment management situation.

We gather relevant information through in-depth personal interviews. Information gathered typically includes a client's current financial status, tax status, future goals, return objectives, and attitudes towards risk. We carefully review any documents supplied by the client and prepare a written report. Should the client choose to implement the recommendations contained in the plan, we suggest the client work closely with their attorney, accountant, and other advisers. These services are updated annually with the client or sooner if life circumstances change and provided to the clients at no additional costs.

Implementation of financial plan recommendations is entirely at the client's discretion. Financial Planning recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company.

### INVESTMENT MANAGEMENT:

We provide continuous advice regarding the investment of client funds tailored to the specific needs of each client. We will create and manage a portfolio based on a client's goals and objectives as determined through the investment policy statement and the financial planning process described above, if applicable. During this data-gathering process, we determine the client's individual objectives, time horizons, risk tolerance, and liquidity needs. We may also review and discuss a client's prior investment history, as well as family composition and background.

We currently offer our Wealth Management services on a discretionary basis only. Account supervision is guided by the client's stated objectives (e.g., growth, income, or a balance between growth and income), as well as tax considerations. Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors.

Our investment recommendations are not limited to any specific product or service offered by a broker-dealer. Our client portfolios primarily consist of individual securities: including domestic and foreign stocks, bonds, exchange-listed real estate investment trusts ("REITs"), Master Limited Partnerships (MLPs), and preferred stock. Exchange-traded funds ("ETFs") are employed for a portion of a portfolio for strategic purposes such as accessing investments that are relatively illiquid (like foreign stocks and small capitalized stocks). Additionally, ETFs are used to provide greater diversification for clients with small investable asset bases. We typically do not include mutual funds in a client's portfolio unless the client already owns them.

For clients that have expressed an interest in environmental, social, and governance ("ESG") investing, we employ a model portfolio based on factor scoring from unaffiliated third-party research partners. Factor scoring rates companies based on how well they are performing in ESG criteria compared to industry peers. This model strives to invest in stocks that have ESG scores of at least 50/100.

### CONSULTING

We could provide personal administrative or other special services to clients in addition to our other services. Consulting recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company.

## Item 5. Fees and Compensation

### FEES FOR WEALTH MANAGEMENT SERVICES

We offer clients two fee options for our Wealth Management service: a Traditional Fee Schedule and a Performance Fee Schedule. Our Traditional Fee Schedule consists solely of a fee based on a percentage of the amount of assets under management with MSR (a “management fee”). Our Performance Fee Schedule has two fee components: (i) management fee; and (ii) a performance-based fee that is equal to a percentage of the “net” profit of the client’s investment portfolio. Initially, a client’s initial chosen fee schedule could be changed at any time, however, future changes are subject to a 24-month period commitment. Under certain circumstances, this 24-month period commitment is negotiable or can differ between clients. In addition, we charge 1% of asset under management for Concentrated Stock Options Strategy that is managed by third party sub-advisor, there are additional fees for this strategy charged by the sub-advisor.

For some of our clients we manage several accounts which could include accounts of their family members and/or their business accounts. In these cases, we generally aggregate the entire amount of assets under management of that client’s accounts, family member and/or business accounts to determine the appropriate fee threshold on our tiered fee schedule described below. This is employed in an effort to provide the client with the most advantageous fee schedule given that our fees are generally lower on a percentage basis for clients with higher amounts of assets under management. This aggregation method is limited, however, when applied to our performance-based fee option described below. The performance-based fee schedule, rather, is available only to each client that is a “qualified client” as defined in Rule 205-3 of the Investment Advisers Act of 1940. Family member accounts are not aggregated in cases where the individual family member does not independently meet the “qualified client” criteria. Some fee schedules have been negotiated in select circumstances, depending on several factors unique to each client, including the client’s needs/choice, nature, and complexity of the services required.

## TRADITIONAL FEE SCHEDULE:

All fees are based on net assets under management and will be computed on the market value of net assets under management on the last business day of the preceding quarter. This fee schedule shall be deemed to be part of the Investment Management Agreement. The annual management fee will be calculated as follows and billed and payable in advance quarterly:

1.2500%	1 <sup>st</sup>	\$2,000,000
1.0000%	next	\$3,000,000
0.7500%	next	\$5,000,000
0.5000%	next	\$10,000,000
0.2500%	next	\$20,000,000
0.1500%	next	\$20,000,000
0.1000%	over	\$60,000,000

## PERFORMANCE FEE SCHEDULE:

MSR requires that clients electing to pay the Performance Fee Schedule be “qualified clients” as defined in Rule 205-3 of the Investment Advisers Act of 1940. These clients must therefore have at least \$1,100,000 under management with MSR or demonstrate a net worth of at least \$2,200,000, excluding the value of a natural person’s primary residence and including as liability any debt secured by the primary residence in the 60 days prior or entering into an investment management contract with MSR.

### *Management fees*

All management fees are based upon net assets under management and will be computed quarterly on the market value of net assets under management on the last business day of the preceding quarter. This fee schedule shall be deemed to be part of the Wealth Management Agreement. The annual management fee will be calculated as follows and billed and payable in advance on a quarterly basis:

0.7500%	1 <sup>st</sup>	\$ 2,000,000
0.6250%	next	\$ 3,000,000
0.5000%	next	\$ 5,000,000
0.2500%	next	\$ 10,000,000
0.1500%	next	\$ 20,000,000
0.1000%	over	\$ 40,000,000



### *Performance Allocation*

MSR will be specifically allocated a percentage of the net profit allocated to the Client based upon the schedule below:

Assets less than \$5M	5%
Assets \$5M-\$10M	4%
Assets \$10-\$20M	3%
Assets \$20M-\$60M	2%
Assets over \$60M	1%

This performance allocation will be made at the end of each calendar quarter. All performance allocations are based upon the net profit derived from the Portfolio and will be computed on the last business day of each quarter based upon the net profit derived during that quarter. To ensure that the performance allocation is based upon the long-term performance of the Client's investment, the performance allocation is subject to a "high water mark." This limitation prevents MSR from receiving a performance allocation as to "net" profits that simply "restore" net losses previously allocated to the Client that have not been recovered (the loss carryforward). When the Client withdraws capital, any loss carryforward will be adjusted downward in proportion to the withdrawal.

### *Performance-based Fee Disclosures*

The performance fees were structured with the intent of being fair and reasonable given the client portfolio results. The annual performance-based fee will be based on a percentage of assets under management, net profit (including realized and unrealized gains and losses, dividends and interest, and net of any additions and withdrawals) in a client account during a given calendar quarter. Clients will be charged the performance fee in arrears at the end of each quarter based upon the value (market value or fair market value in the absence of market value), of the client's account at the end on the last day of the previous three-month period. The performance fee will be calculated on the value of the client account after the management fee is assessed and will be debited from the account in accordance with the client authorization.

The performance fee component is subject to a "high watermark." This means that MSR is only entitled to a performance fee when the quarter-end value of a client's portfolio exceeds the accounts previous highest quarter-end value. During periods when the investment portfolio declines in value or fails to make a new higher market value, MSR is not entitled to a performance fee.

Clients who elect to terminate their advisory agreements will be charged a fee based on the performance of the account for the measuring period going back from the termination date and pro-rated from the date on which the performance-based fee was last assessed.

Performance-based fees align MSR's interests with client goals. The performance-based fee also creates a conflict of interest for MSR between its responsibility to manage the assets for the benefit of its clients and its interest in maximizing the profits it will receive. For example, the performance-based fee structure creates an incentive for MSR to recommend investments which are riskier or more speculative than those which would be recommended under a different fee arrangement. In addition, this arrangement also creates an incentive for MSR to favor accounts for which it receives a performance-based fee.

To mitigate the conflict of interest described above, MSR aims to act in the best interests of its clients, as a fiduciary, and subscribes to managing Traditional Fee and Performance Fee client accounts in a fair and similar fashion. MSR fully discloses to its clients all material information regarding this method of compensation and its risks prior to entering into an advisory contract. Further, MSR manages all client accounts in a manner it deems to be consistent with each clients' objectives and in line with MSR's fiduciary duty to its clients. See Item 6 for more details.

#### MINIMUM ACCOUNT REQUIREMENTS:

A minimum of \$1,000,000 of assets under management is required to open an individual portfolio management account for Traditional account and \$1,100,000 for Performance Based-fees account with MSR. This minimum account size is negotiable in limited circumstances. We could group certain related client accounts for the purposes of achieving the minimum account value requirement. Once an account is accepted, there are no specific minimum account requirements for maintaining an account. Further, there are no minimum fee requirements. See Item 6 below for additional disclosures.

#### FEES FOR CONSULTING

MSR's Consulting Fee usually is provided when services are needed outside the scope of our wealth management and will be determined based on the nature of the services being provided and the complexity of each client's circumstances. All fees are agreed upon prior to entering into a contract with any client. The fee for such services is charged on an hourly basis at a rate of \$400 per hour. Clients will be notified before work is performed and the fee is assessed.

Generally, Consulting fees are due and payable upon completion of the services. Depending on the nature of the consulting engagement, a retainer may be requested upon completion of our fact-finding session with the client. However, advance payment will never exceed \$1,200 for work that will not be completed within six months. The balance will be due upon completion of the service.

There is no minimum fee for consulting services.

## GENERAL FEE INFORMATION

***Advisory Fees in General:*** Clients should note that similar advisory services are (or are not) available from other registered (or unregistered) investment advisers for similar or lower fees.

***Fee Calculations:*** Clients should verify the accuracy of the fee calculations as the custodian will not determine whether the fee is properly calculated. All investment advisory fees paid to MSR are reflected on the client's monthly (or quarterly) brokerage statements, which are independently prepared and provided to the client by the custodian. The valuation of clients' portfolios is determined and reported by independent pricing services. The account value will be the total value at the close of business on the last day of the previous quarter. Fees are prorated for accounts opened during a quarter. Under certain circumstances, fees are waived, discounted and or negotiated to non-standard rates. We could also group certain related client accounts for the purpose of determining the annualized fee. Further, we may waive or discount advisory fees for family members and friends of the partners and employees of our firm. These fee waivers or discounts are not generally available to advisory clients of MSR.

***Grandfathering of Minimum Account Requirements and Fees:*** Pre-existing advisory clients are subject to MSR's minimum account requirements and advisory fees in effect at the time the client entered into the advisory relationship. Therefore, our firm's fees and minimum account requirements will differ among clients.

***Termination of the Advisory Relationship*** Thereafter, a client agreement may be canceled at any time, by either party, for any reason upon receipt of written notice. As disclosed above, certain fees are paid in advance of services provided. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any unpaid fees will be due and payable. In calculating a client's reimbursement of fees, we will prorate the reimbursement according to the number of days remaining in the billing period.

***Fund Fees:*** All fees paid to MSR for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. MSR does not actively purchase or recommend mutual funds.

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

***Additional Fees and Expenses:*** In addition to our advisory fees, clients are also responsible for the

fees and expenses charged by custodians and imposed by broker-dealers, including, but not limited to, any transaction charges, fees for duplicate statements and transaction confirmations, and fees for electronic data feeds and reports. Please refer to Item 12 of this Brochure for additional information about our brokerage practices.

***Limited Prepayment of Fees:*** Under no circumstances do we require or solicit payment of fees in excess of \$1,200 more than six months in advance of services rendered.

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

As disclosed in Item 5 of this Brochure, our firm accepts a performance-based fee from clients. Such a performance-based fee is calculated based on a share of capital gains on, or capital appreciation of, the assets of the client. To qualify for a performance-based fee arrangement, a client must either demonstrate a net worth of at least \$2,200,000 or must have at least \$1,100,000 under management immediately after entering into a management agreement with us.

Clients should be aware that performance-based fee arrangements create an incentive for us to recommend investments which are riskier or more speculative than those which would be recommended under a different fee arrangement. In addition, this arrangement also creates an incentive for MSR to favor accounts for which it receives a performance-based fee. However, as a fiduciary, MSR aims to act in the best interests of its clients and subscribes to managing Asset Management Fee and Performance Fee clients in a similar fashion.

Furthermore, since we also have clients who do not pay performance-based fees, we have an incentive to favor accounts that do pay such fees because compensation we receive from these clients is more directly tied to the performance of their accounts. Since we aim at all times to put the interest of our clients first as part of our fiduciary duty as a registered investment adviser, we take the following steps to mitigate these conflicts:

1. We disclose to clients the existence of all material conflicts of interest, including the potential for our firm and employees to earn more compensation from advisory clients who pay performance-based fees;
2. We collect, maintain and document accurate, complete, and relevant client background information, including the client's financial goals, objectives, and risk tolerance;
3. Our portfolio managers conduct regular reviews of each client account to verify that all recommendations made to a client are suitable to that client's needs and circumstances;
4. We have implemented policies and procedures for fair and consistent allocation of investment opportunities among all client accounts;
5. We periodically compare holdings and performance of all accounts with similar strategies to identify significant performance disparities indicative of possible favorable treatment;
6. We periodically review trading frequency and portfolio turnover rates to identify possible patterns of "window dressing," "portfolio churning," or any intent to

manipulate trading to boost performance near the reporting period.

7. We educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients and equitable treatment of all clients, regardless of the fee arrangement.

Performance-based fees will only be charged in accordance with the provisions of Rule 205-3 of the Investment Advisers Act of 1940 and/or applicable state regulations. Our clients must understand the performance-based fee method of compensation and its risks prior to entering into a management contract with us.

## **Item 7. Types of Clients**

MSR provides its advisory services, where appropriate, to individuals, trusts, estates, charitable organizations, foundations, pension and profit-sharing plans, corporations, and other business entities.

As previously disclosed in Item 5, our firm has established certain initial minimum account requirements based on the nature of the service(s) being provided. For a more detailed understanding of those requirements, please review the disclosures provided for each applicable service.

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

### METHODS OF ANALYSIS

We use the following methods of analysis in formulating our investment advice and/or managing client assets:

***Fundamental Analysis:*** We attempt to gauge the intrinsic value of securities, industries, sectors, regions, and asset classes by looking at economic and financial factors (including traditional measures of valuation, the overall economy, industry conditions, and financial conditions) to determine if a security is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

Fundamental analysis does not attempt to anticipate general market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating a security.

***Quantitative Analysis:*** Quantitative analysis remains a cornerstone of quantitative finance, asset pricing, return forecasting, risk modeling, and ultimately equity portfolio management. We

strive to decompose equity returns into different components – “Factors” – which allow us to better understand risk and return in the context of security selection and portfolio construction. We quantitatively rank how attractive investment opportunities are based on “Factors” such as valuation, liquidity, profitability to name a few, as an example. We implement a proprietary scoring system based on specific “Factors” to better identify companies that look attractive purely from a quantitative standpoint.

**Technical Analysis:** Technical analysis involves the analysis of past market movements and the application of that analysis to the present in an attempt to recognize recurring patterns of investor behavior and to predict future price movement.

Charting and cyclical analysis are types of technical analysis that we use. Charting involves the review of charts of market and security activity in an attempt to identify when the market is moving up or down and to predict how long the trend may last and when that trend might reverse. Cyclical analysis involves measuring the movements of a particular security relative to the overall market in an attempt to predict the price movement of the security.

Technical analysis does not consider the underlying financial conditions of a security. This presents a risk in that a poorly managed or financially unsound investment can underperform regardless of market movement.

Using both fundamental and technical analysis, we develop many investment ideas internally through our Investment Committee. The Committee analyzes and discusses economic conditions, demographic and macro trends, global market conditions, and specific investment ideas and opportunities in all asset sectors. These discussions lead the Committee to develop target asset allocation guidelines for all asset sectors and to strategically alter them over the course of market and business cycles.

**Mutual fund and/or ETF analysis:** In cases where a client already owns a mutual fund or whose portfolio contains an ETF, we look at the experience and track record of the manager of the mutual fund or ETF in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. We also look at the underlying assets in a mutual fund or ETF in an attempt to determine if there is a significant overlap in the underlying investments held in another fund(s) in the client’s portfolio. We also monitor the funds or ETFs in an attempt to determine if they are continuing to follow their stated investment strategy.

A risk of mutual fund and/or ETF analysis is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF, managers of different funds held by the client may purchase the same security, increasing the risk to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund or ETF, which could make the holding(s) less suitable for the client’s portfolio.

***Risks for all forms of analysis:*** Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

## INVESTMENT STRATEGIES

We use the following strategies in managing client accounts, provided that such strategies are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

***Long-term purchases:*** We purchase securities with the idea of holding them in the client's account for a year or longer. Typically, we employ this strategy when:

- we believe the securities to be currently undervalued, and/or
- we want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantage of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

***Short-term purchases:*** MSR very rarely employs the use of short-term trading strategies. When utilizing this strategy, we purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase.

A short-term purchase strategy poses risks should the anticipated price swing not materialize; we are then left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss.

In addition, this strategy involves more frequent trading than does a longer-term strategy and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

***Stop-loss Orders:*** MSR employs the use of stop-loss orders on certain stocks in each client portfolio in an effort to mitigate significant losses. These stop-loss orders are placed on shares of companies the firm believes would do poorly in difficult economic conditions. Though stop-loss orders can be effective in a market falling at a normal pace, they can pose a risk if markets or individual

stocks fall dramatically within a very short period of time. Once a stop-loss order is executed a market order is sent to the exchange to sell the shares at the current market price. The actual sale price, in a fast-moving market, may be less or more than the stop loss order price. To mitigate this risk MSR places stop loss orders on economically sensitive company shares and often on a portion of a client's shares. Clients may direct MSR not to employ the use of stop loss orders.

***Selling Stock Short:*** MSR employs the strategy of selling stocks short only in cases when the firm believes that a market is likely to decline over a longer time frame. The risk of selling stock short occurs when markets begin to recover, and the short positions lose value. Due to this risk MSR usually places stop-loss orders on their short positions. Selling stock short is rarely used by MSR.

***Asset Allocation:*** In implementing our clients' investment strategy, we begin by attempting to identify an appropriate ratio of equities, fixed income, and cash (i.e. "asset allocation") suitable to the client's investment goals and risk tolerance.

A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry, or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for the client's goals.

***Margin:*** We do not use margin transactions as an investment strategy. However, we may recommend, where appropriate, that a client establish a margin account with the client's broker. In this situation, if we are selling one stock and purchasing another stock with the proceeds, we can use the margin account to make certain that you are not left out of the purchase if we have difficulty completing the sale.

## GENERAL RISKS

***Risk of Loss.*** Securities investments are not guaranteed, and you may lose some or all of your money on your investments. Such investments are subject to investment-specific price fluctuations as well as to macro-economic, market and industry-specific conditions, including, but not limited to, national and international economic conditions, domestic and international financial policies and performance, conditions affecting particular investments such as the financial viability, sales and product lines of corporate issues, national and international politics and government events, and changes in income tax laws. In addition, MSR's ability to vary their investments portfolios in response to changing economic, financial, and investment conditions may be limited. All investors should be prepared to bear these risks. No guarantee or representation is made that investments will be successful, and investment results may vary substantially over time. Past results are not necessarily indicative of future performance. We ask that you work with us to help us understand your tolerance for risk.

***Reliance on MSR.*** MSR will make decisions with respect to the management and disposition of any managed assets. Clients will also not have the opportunity to evaluate personally the relevant economic, financial, and other information which will be utilized by MSR in its selection,



monitoring, and disposition of investments of the managed assets. In addition, clients may not receive financial information which may be available to MSR. Consequently, the success of the investment strategies will depend substantially on the skill and expertise of MSR in selecting investments for clients.

*Cybersecurity Risk.* MSR and its service providers on whom it relies depend on complex information technology and communications systems to conduct business functions. These systems are subject to a number of different threats or risks that could adversely affect clients and their managed assets, despite the effort MSR and its service providers adopt in technologies, processes, and practices intended to mitigate these risks and protect the security of their computer systems, software, networks, and other technology assets, as well the confidentiality, integrity, and availability of information belonging to the clients and/or their investors. For example, unauthorized third parties may attempt to access, modify, disrupt the operations of or prevent access to these systems of MSR and/or its service providers on whom MSR relies for data within these systems. Third parties may also attempt to fraudulently induce employees, customers, third-party service providers, or other users of systems to disclose sensitive information and gain access to MSR's data or that of its clients. A successful penetration of the security of MSR's systems or its service providers on whom MSR relies on could result in the loss or theft of a client's data or funds, the inability to access electronic systems, loss or theft of proprietary information or corporate data, physical damage to a computer or network system or costs associated with system repairs. Such an incidence could cause MSR or its service providers on whom it relies on to incur regulatory penalties, reputational damage additional compliance costs, or financial loss.

*Business Continuity Risk.* MSR has adopted a business continuation strategy to maintain critical functions in the event of a partial or total building outage affecting our offices or a technical problem affecting applications, data centers, or networks. The recovery strategies are designed to limit the impact on clients from any business interruption or disaster. Nevertheless, our ability to conduct business can be curtailed by a disruption in the infrastructure that supports our operations.

*Public Health Risk.* MSR could be materially adversely affected by the widespread outbreak of infectious disease or other public health crises, including the COVID-19 pandemic. Public health crises such as the COVID-19 pandemic, together with any containment or other remedial measures undertaken or imposed, could cause significant interruptions in the operations of MSR.

*Market Disruptions; Governmental Intervention.* In the recent past, the global financial markets have gone through fundamental disruptions that have led to extensive and unprecedented governmental intervention. These interventions have in certain cases been implemented on an emergency basis, suddenly and substantially eliminating market participants' ability to implement certain strategies or manage the risk of their outstanding positions. In addition, these interventions have typically been unclear in scope and application, resulting in confusion and uncertainty, which has been detrimental to the efficient functioning of the markets as well as previously successful investment strategies. Managed assets may incur major losses in the event

of disrupted markets and other extraordinary events which could negatively affect underlying investment exit strategies.

*Equity Risks.* Investments in public or private companies or in exchange-traded funds that expose investors to the equity markets are subject to a risk of significant capital loss due to the unpredictable nature of corporate earnings and the uncertainty of capital markets in general.

*Fixed income Risks.* Investments in bonds, credit, and other types of fixed income-like securities are subject to a variety of risks including credit risk or the risk of default of the issuer, interest rate risk or the risk of a decline in value due to changes in interest rates, and reinvestment risk or the risk that proceeds from a fixed income security will be reinvested later at lower interest rates.

*Inflation Risks.* Certain investments are subject to the risk that the purchasing power of an investor's assets will be reduced over time due to inflation.

*Foreign Country Risk.* Certain investments are subject to a risk associated with investing in securities issued by entities or corporations outside the United States. Foreign issuers are subject to a host of geopolitical, economic, and currency uncertainties which make those securities inherently risky.

*Environmental, Social and Governance ("ESG") Investing Risk.* Upon client request, MSR considers ESG factors when managing client assets. Such assets could underperform similar strategies that do not take into account ESG factors. Specifically, the use of ESG factors could result in selling or avoiding investments that subsequently perform well or making investments that substantially underperform.

*Exchange-Traded Funds ("ETF") Risks.* Investing in an ETF exposes an investor to all of the risks that ETF's investments and subjects it to a pro-rata (d) portion of that ETF's fees and expenses. As a result, the cost of investing in ETF shares may exceed the costs of investing directly in its underlying investments. ETF shares trade on an exchange at a market price that may vary from the ETF's net asset value. ETF's may be purchased at prices that exceed the net asset value of their underlying investments and may be sold at prices below such net asset value. Because the market price of ETF shares depends on the demand in the market for them, the market price of an ETF may be more volatile than the underlying portfolio of securities the ETF is designed to track, and an investor may not be able to liquidate ETF holdings at the time and price desired, which may impact the investment performance.

*Counterparty Risk.* The Firm and/or its Clients may be subject to credit risk with respect to the counterparties to instruments entered into directly by the Clients or held by the Clients' underlying investments. The Funds will also be subject to the risk that a counterparty may become unwilling or unable to meet its obligations prior to settlement. The Clients may also be exposed to the credit risk of counterparties through a wide range of activities that occur in the normal course of the activities of the Clients, including through service providers, banks, brokers,

insurance providers, trading counterparties, co-investors, portfolio companies, prospective portfolio companies, or other entities that the Clients will have financial exposure to. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a contract due to financial difficulties, the Clients may experience significant delays in obtaining any recovery under the contract in a bankruptcy or other reorganization proceeding. The Clients may obtain only a limited recovery or may obtain no recovery in such circumstances. The Firm is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with a single counterparty. The ability of the Firm to transact business with any one or number of counterparties, the lack of any independent evaluation of such counterparties' financial capabilities, and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Clients, especially during unusually adverse market conditions.

*Custody Risk.* The Firm is required to maintain certain Client assets at a qualified custodian. Clients may incur a loss on securities and funds held in custody in the event of a custodian's or sub-custodian's insolvency, negligence, fraud, poor administration, or inadequate recordkeeping. Custodial assets maintained at a bank do not typically become part of a failed bank's estate; however, the Firm's operations could be impacted by the bank's insolvency in that there may be a delay in trade settlement, delivery of securities, or other similar circumstance. Establishing multiple custodial relationships could mitigate custodial risk in the event of a bank failure.

*Bank Deposits Risk.* Deposits maintained at a Federal Deposit Insurance Corporation ("FDIC") insured bank are covered up to \$250,000 per depositor, per insured bank, for each account ownership category, in the event of a bank failure. Any deposits over \$250,000 in cash at a single bank may be lost in the event that the bank fails. Further diversifying banking relationships could serve to minimize the potential uncertainty and destabilizing effect on the Firm's operations due to concern regarding the financial viability of a single banking institution. In addition, valuation of companies may experience significant price declines, volatility, and liquidity concerns as a result of short- and long-term financing to continue operations at normal levels.

*Concentrated Stocks Option Strategies Risk Factors.* The Strategy may be based upon proprietary option overlay evaluation, trading and execution techniques developed or licensed by MSR or, in certain circumstances, jointly by MSR and SpiderRock Advisors and identified and monitored by MSR. MSR or SpiderRock Advisors will evaluate the liquidity of the option market for the underlying concentrated stock position in consultation with client and MSR. Advisor or Subadvisor will continually monitor all option positions and will look to manage the continued rolling forward of positions at maturity or by sale and repurchase of new positions prior to option maturities, and may rely on its proprietary system. Advisor or Subadvisor may use proprietary rules and quantitative analysis to determine when to sell calls and / or purchase puts. In an attempt to manage the risk of options trades, Subadvisor may employ quantitative probability analysis based upon market volatility information or other options investment techniques. Normally, call options sold will be at various "out of the money" (above current price of security) execution or strike prices and different maturities ranging from three to six to nine months. The sale of call options against the underlying stock position generates premium income. This

strategy, however, may effectively cap the upside market appreciation of the stock position if its price rises above the option strike price before option maturity. Client understands and acknowledges that this strategy may result in reduced or limited participation in future appreciation of the concentrated stock position. Client also acknowledges and understands that call options can be assigned, meaning part or all of their underlying stock positions could be sold to generate cash to settle options at maturity resulting in the realization of taxable gains. Client also understands that American-style options can be exercised early, requiring the client to sell the specified number of shares of the underlying stock to the buyer of the call option at the time of the exercise. While Advisor or Subadvisor will attempt to manage all options positions to enhance portfolio returns and protect against assignment and the realization of taxable gains and will also attempt to purchase shares for short settlement as described above in the event of assignment, Client acknowledges their understanding that no assurances can be made that such taxable gains will not occur. With respect to certain Client accounts, it may be necessary to sell a portion of the underlying stock positions to satisfy expected tax liability, post margin or purchase additional options. The Collar approach will purchase put options on an ongoing basis with the goal of providing partial protection based upon the risk, cost and duration criteria to be determined upon the implementation of the strategy by the Client and as such may be adjusted going forward. The Collar will attempt to balance the call option premium over time versus put option expense. Client understands and acknowledges that the relationship between price movements of securities and various put and call options on the same security may vary greatly and that no assurances can be made that the perceived protection to be provided when a put option is purchased will actually result. In addition, declines in portfolio values may result even when the stock price is stable or rising due to the decline of option values as they decay in value as they approach maturity. Maintaining the desired level of protection through time will require an occasional rebalancing of the option positions. Depending on client's access to margin account, option trading level permissions and extreme market conditions, rebalancing transactions may cause the client to temporarily deviate from the target level of protection. The decision to purchase Put options will be solely at the direction of the Client, in consultation with Advisor and Subadvisor, when choosing the Collar strategy. The Collar approach will not necessarily purchase put options on an ongoing basis but selectively with the goal of providing partial protection based upon the risk, cost and duration criteria to be determined upon the implementation of the strategy by the Client and as such may be adjusted going forward. The goal of the Collar is to provide selective, partial protection against large declines in value of the underlying security while attempting to provide a positive net income of call option premium overtime versus put option expense. A Collar strategy involves applying the income generated through the sale of call options to pay for the desired level of put protection. Client understands and acknowledges that the relationship between price movements of securities and various put and call options on the same security may vary greatly and that no assurances can be made that the perceived protection to be provided when a put option is purchased will actually result. Put options are often more expensive than comparable call options. As a result, the sale of call options (risking the loss of part of or all of potential price appreciation of the security) to generate premium income often does not result in enough income to pay for the put protection on the entire stock position. In addition, declines in portfolio values may result even when the stock price is stable or rising due to the

decline of option values as they decay in value as they approach maturity.

Client accounts will typically include:

- Holding concentrated stock position
- Sale of Call Options (attempt to generate short term capital gains) against concentrated equity position or substitute security or index. Calls may be repurchased prior to maturity or be allowed to expire at maturity.
- Purchase of Protective Put Options – usually ladder over several expiration dates (attempt to create the limited downside protection) against concentrated equity positions or substitute security or index. Puts may be repurchased prior to maturity or be allowed to expire at maturity.
- Strategic selling of client concentrated stock position (if elected).

Options change the risk profile of the portfolio. The sale of Call options may effectively cap the total upside of the Stock position, entail possible loss of principal in a rising market and can offset gains in the long Stock position. The purchase of Puts entails an expense and can be a drag on portfolio returns.

#### Account considerations

The Strategy may not be able to be deployed in the same manner in either an IRA or a non-IRA account. The Strategy does not use margin to borrow or create any actual portfolio leverage. However, the Strategy does use options and options can be used to create 'implied leverage'. Implied leverage is when you use an option to control more shares than you could control just buying the underlying security. The collar does not use options to create implied leverage. Generally, a margin account is required to trade options. Subadvisor is responsible for the placing of all purchase and sale orders in the Client's segregated account and providing instructions concerning the delivery of cash or securities for the settlement of option trades. Client should consult with their tax advisor to address the income tax consequences of options trading strategies. Client also acknowledges their responsibility to notify Subadvisor and Advisor in writing of any restrictions or prohibited transactions related to the concentrated securities in their account.

### **Item 9. Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. Our firm and our management personnel have no reportable disciplinary events to disclose.

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

Our firm and management persons are not engaged in any other applicable financial industry activities and have no other industry affiliations.

## **Item 11. Code of Ethics, Participation in Client Transactions and Personal Trading**

### CODE OF ETHICS

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws. MSR and our personnel owe a duty of loyalty, fairness, and good faith to our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code.

MSR's Code of Ethics includes the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

Our Code of Ethics requires that anyone associated with this advisory practice with access to advisory recommendations, client holdings, or other specified information ("access persons") provide annual securities holdings reports and quarterly transaction reports of all reportable transactions to the firm's designated officer. These reports are made available to an appropriate regulatory agency upon request and will be reviewed on a regular basis by the Chief Compliance Officer ("CCO") of MSR, or their designee, to supervise compliance with the firm's Code of Ethics. Our Code also contains oversight, enforcement, and recordkeeping provisions. A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by email to [msr@ms-research.com](mailto:msr@ms-research.com), or by telephone at (415) 289-1010.

### SUMMARY OF PERSONAL TRADING POLICY

Our firm and the individuals associated with our firm could buy or sell securities for their personal accounts that are identical to or different from those recommended to our clients. In addition, the firm and these individuals could have an interest or position in a security which may also be recommended to a client. As all these situations represent actual or potential conflicts of interest with our clients, we have taken the following steps to assure that (i) the personal securities transactions of our employees will not interfere with making and implementing decisions in the best interest of our advisory clients, (ii) our firm complies with its regulatory obligations, and (iii) we provide our clients with full and fair disclosure of such conflicts of interest:

1. Prohibiting the firm, its partners, and employees from:
  - a. Putting their own interest above the interest of an advisory client;

- b. Buying or selling securities for their personal portfolio(s) where their decision is a result of information received as a result of his or her employment unless the information is also available to the investing public.
  - c. Purchasing or selling any security in their personal portfolio(s) 3- calendar days prior to or 3-calendar days after ("blackout period") a transaction(s) in the same securities being implemented for an advisory client unless the personal trade falls within MSR's "de minimis" exemption. Trades covered by the "de minimis" exemption are still subject to all other requirements of MSR's Code of Ethics and may apply only if the following requirements apply: 1) The transaction or aggregated transactions must be for the purchase or sale of 5,000 shares or less every 30 days; 2) The issuer of the securities must have a market capitalization of at least \$1 billion; and 3) The transaction must be free from any actual and/or apparent conflicts of interest. If the transaction does not meet the "de minimus" exemption, the black-out period described above will apply and employees must obtain pre-approval from the CCO or their designee. Pre-approval requests in a security that has been purchased or sold in a client account during the blackout period, or that is listed on MSR's "watch list," will be denied. After a request for preclearance is approved, the compliance designee will cross-reference the employee's trading against client portfolio trades for 3-calendar days. If there is a trade in a client account in the same security during that 3-day timeframe, the CCO will investigate and may require the employee to submit a written explanation of the circumstances surrounding the transaction. If the CCO is not satisfied that the employee affected his or her trade without knowledge of the impending managed portfolio transaction, the employee may be required to submit a trade to reverse the transaction, forfeit any resulting gains, and absorb any resulting financial and/or tax consequences based on the investigation and decision of the CCO. The blackout policy shall not apply to any trades triggered by stop-loss orders originally placed outside the blackout period.
2. Our firm requires prior approval from our CCO for investment by our partners and employees in an initial public offering (IPO), a private placement, and certain publicly traded securities.
  3. We maintain a list of all reportable securities holdings for our firm, our partners, and our employees who are access persons. These holdings are reviewed on a quarterly basis by our firm's CCO, or their designee, to verify compliance with this personal trading policy.
  4. We have established procedures for the maintenance of all required books and records.
  5. We require our partners and employees to act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
  6. We provide a copy of the Code of Ethics on an annual basis to the partners and employees of our firm. Each employee acknowledges the Code in writing and agrees to be bound by it.
  7. We have established policies requiring the reporting of Code of Ethics violations to our CCO.

8. Any individual who violates any of the above restrictions is subject to penalties, up to and including termination.

## PRINCIPAL TRANSACTIONS

MSR and individuals associated with our firm are prohibited from engaging in principal transactions. A principal transaction is a transaction where MSR or a person associated with MSR, as principal, buys securities from, or sells securities to, an MSR client.

## **Item 12. Brokerage Practices**

### BROKERAGE DISCRETION

MSR requests that it be provided in writing with the discretionary authority to determine:

- the broker-dealer to use for client transactions; and
- the commission/transaction costs that will be charged to clients for these transactions.

Any limitations on this discretionary authority shall be included in this written authority statement. Clients may change/amend these limitations as required. Such amendments shall also be submitted in writing.

MSR will endeavor to select those brokers or dealers which will provide the best services at the lowest commission rates possible. The reasonableness of commissions is based on the broker's stability, reputation, ability to provide professional services, competitive commission rates, and prices, research, trading platform, and other services which will help MSR in providing investment management services to clients. MSR may therefore use a broker who provides useful research and securities transaction services even though a lower commission may be charged by a broker who offers no research services and minimal securities transaction assistance. Research services may be useful in servicing all our clients, and not all of such research may be useful for the account for which the particular transaction was affected.

MSR typically uses the brokerage and platform services of Schwab Institutional, a division of Charles Schwab & Co., Inc. ("Schwab"),<sup>1</sup> or U.S. Bancorp Investments, Inc. (US Bank)),<sup>2</sup> for its advisory accounts. Both Schwab and US Bank are FINRA<sup>3</sup>-member broker-dealers and SIPC<sup>4</sup> members. Schwab and US Bank provide MSR with access to their institutional trading and custody services. There is no direct link between our firm's use of these brokerage and platform services and the investment advice we give to our clients. However, we receive economic benefits through our participation in these platforms that are typically not available to Schwab or US Bank retail investors.

These platform services are not contingent upon our firm committing to Schwab or US Bank any



specific amount of business (assets in custody or trading commissions). Schwab's and US Bank's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For our client accounts maintained in their custody, Schwab and US Bank generally do not charge separately for custody services and as of October 2019 ceased from being compensated commissions by account holders on equity trades. Other transaction-related fees exist for securities trades that are executed through Schwab or US Bank or that settle into the accounts.

Schwab and US Bank also make available other products and services that benefit MSR but may not directly benefit our clients' accounts. Many of these products and services may be used to service all or some substantial number of our client accounts, including accounts not maintained at Schwab or US Bank. These products and services that assist us in managing and administering our clients' accounts include software and other technology that:

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

Schwab and US Bank also offer other services intended to help us manage and further develop our business enterprise. These services may include:

- educational conferences, and events;

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<sup>1</sup> For information regarding Schwab, please refer to their website: <https://www.schwab.com>.

<sup>2</sup> For information regarding US Bank, please refer to their website: <https://www.usbank.com/investing/online-investing/self-directed-investing.html>.

<sup>3</sup> FINRA is the largest independent regulator for all securities firms doing business in the United States. For more information regarding FINRA, please refer to their website: <http://www.finra.org>.

<sup>4</sup> For information regarding the SIPC, please refer to their website: <http://www.sipc.org>.

- 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 and US Bank may make available, arrange and/or pay third-party vendors for the types of services rendered to MSR. Schwab and US Bank may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to our firm. Schwab and US Bank may also provide other benefits such as educational events or occasional business entertainment for our personnel.

In evaluating whether to require that clients, custody their assets at Schwab or US Bank, we may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors we consider and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab or US Bank, which may create a potential conflict of interest.

We have no formal or informal soft dollar arrangements with Schwab or any other broker-dealer. Neither Schwab nor US Bank provides us with any specific proprietary research or other specialized services other than what is otherwise made available by them to the other investment advisers that use their platform services.

We receive client referrals from Schwab through our participation in the Schwab Advisor Network (“the Service”). The Service is designed to help investors find an independent investment adviser. As mentioned above, Schwab is a FINRA-member broker-dealer independent of and unaffiliated with MSR. Schwab does not supervise MSR and has no responsibility for MSR’s management of client portfolios or other advice or services. MSR pays Schwab fees to receive client referrals through the Service.

MSR pays Schwab a “Participation Fee” on all referred clients’ accounts that are maintained in custody at Schwab and a “Non-Schwab Custody Fee” on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee paid by MSR is a percentage of the advisory fees the client owes to MSR or a percentage of the value of the assets in the client’s account, subject to a minimum Participation Fee.

MSR pays Schwab the Participation Fee for as long as the referred client’s account remains in custody at Schwab. The Participation Fee is billed to MSR quarterly and may be increased, decreased, or waived by Schwab from time to time.

The Participation Fee is paid by MSR and not by the client. MSR has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs MSR charges clients with similar portfolios who were not referred through the Service.

MSR generally pays Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from, Schwab. This fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees MSR generally would pay in a single year. Thus, MSR will have an incentive to recommend that client accounts be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of MSR's clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, MSR will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit MSR's fees directly from the accounts.

#### SUMMARY OF TRADE AGGREGATION POLICY

MSR will aggregate (i.e., block) trades where possible and when advantageous to clients. This blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple client accounts. Block trading allows us to execute equity trades in a timelier, more equitable manner, at an average share price. MSR will typically aggregate trades among clients whose accounts can be traded at a given broker. MSR's block trading policy and procedures are as follows:

1. Trades may be aggregated where it is more timely, efficient, and equitable to those clients participating in a trade in the same security.
2. Transactions for any client account may not be aggregated for execution if the practice is prohibited by or inconsistent with the client's advisory agreement with MSR, or our firm's order allocation policy.
3. The portfolio manager must determine that the purchase or sale of the particular security involved is appropriate for the client and consistent with the client's investment objectives and with any investment guidelines or restrictions applicable to the client's account.
4. The portfolio manager must reasonably believe that the order aggregation will enable MSR to seek best execution for each client participating in the aggregated order. This requires a good faith judgment at the time the order is placed for execution. It does not mean that the determination made in advance of the transaction must always prove to have been correct in the light of a "20-20 hindsight" perspective. Best execution includes the duty to seek the best quality of execution, as well as the best net price.
5. Aggregated (block) trades are sent as market orders (not limit orders) and are always filled regardless of price. However, adjustments to the allocations are made due to tax considerations, to avoid having odd amounts of shares held in any client account, or to avoid excessive ticket charges in smaller accounts.

6. In determining allocations for smaller accounts or accounts with small initial allocation, the firm employs a de minimus exception. This exception serves to allow smaller accounts to receive their entire allocation before larger accounts are given their pro-rata amount, in order to minimize the transaction costs involved with a series of small allocations.
7. In cases where the final pricing on an aggregated trade results in the overspending in a particular account, the firm's policy is to move those shares to another account of the same client so that the client's composite maintains the appropriate assets allocation; if that is not possible, the firm will break the trade.
8. The firm trades using Advisor Peak, our trade order management system, to calculate the allocations and percentages.
9. Generally, each client that participates in the aggregated order must do so at the average price for all separate transactions made to fill the order. Each participating account has its own set commission costs based on its arrangement with its broker. Transaction costs may be charged as a fixed, per-trade fee or a fee based on the number of shares traded for each client (depending upon the individual client's agreement with the applicable custodian/broker).
10. In daily trading, a group of client trades is entered based on a position size determined by client assets and tactical weight. For example, a client with \$1M assets under management (AUM) who is 80% stock will have \$16,000 positions (based on 50 positions per portfolio). Once most or all of that day's trades are entered, the "like" trades (same position, same broker) are merged together and sent to each respective broker as a block trade in our master account. Once the trade fills, the pre-allocation file, created when the trades are merged, is audited to ensure that no negative balances have been created. Where possible, we attempt to move the shares into another account owned by the same client. Once this audit is complete, the allocation file is sent to the broker to allocate. Trading in this manner ensures that all included clients receive the identical fill price per share. Fill price may vary among brokers.
11. In the rare event that MSR buys or sells a security that lacks sufficient volume to efficiently sell a block of stock at the current market price, block orders will be executed in phases and possibly over days in an effort to obtain the best pricing. This can result in segments of clients getting different pricing for securities. We use several methods to achieve the goal of best pricing in a manner that does not favor one client over another which may include: 1) random selection of accounts; 2) client tactical weighting considerations (i.e. group by client stock exposure requirements); 3) accounts taxable status; or 4) alphabetical order.
12. When the investment policy committee makes a decision to enter into a new position or exit from a position, we run an "allocation strategy." We select a group of clients and either buy a percentage of their tactical weight in the new position (typically 2%, i.e.

client has \$1M and should be 80% stock, they should own \$800,000 in stock, 2% of which is \$16,000, again based on 50 stocks per portfolio) or sell a position or all (typically 50% or 100%) of the existing position. The “allocation strategy” feature automatically determines how many shares to buy or sell per client and “blocks” the trades for submission to the brokers. Once the trades are filled, we again audit for negatives or tax considerations, and once resolved, send the allocation files to the brokers. This procedure ensures that each included client receives the same fill price. Fill price may vary among brokers.

13. No client or account will be favored over another.

## TRADE ERROR POLICY

MSR requires that its personnel carefully implement investment management decisions. Nevertheless, if a trade error occurs, it is MSR’s policy that the error be corrected as soon as possible and in such a manner that the affected client is not disadvantaged and bears no loss.

MSR’s policy prohibits its staff from requesting a broker-dealer to accept financial responsibility for a trade error caused by MSR’s personnel in exchange for the promise of future compensation through commissions.

## **Item 13. Review of Accounts**

### WEALTH MANAGEMENT

**Reviews:** While the underlying securities within client accounts are continually monitored, these accounts are reviewed at least weekly by James E. Demmert, Managing Partner and CIO and our investment policy committee. The committee consists of advisors, an analyst, and a financial specialist from the MSR team who evaluate and apply the latest financial research and develop the firm’s investment policies and guidelines for its clients. The committee meets regularly and discusses current news and market conditions that assist them in outlining potential risks and opportunities – all with our clients’ long-term needs as the focal point. Our client accounts are reviewed in the context of each client’s stated investment objectives and guidelines. More frequent reviews are triggered by material changes in variables such as the client’s individual circumstances, or the market, political or economic environment.

Review of our client’s financial plans will typically occur on an annual basis or upon client request.

**Reports:** In addition to the monthly statements and confirmations of transactions that clients receive from their broker-dealer/custodian, we provide quarterly reports summarizing account performance, balances, and holdings.

Clients who elect to have us provide them financial planning will also receive a completed financial plan. This plan will typically be updated annually or upon client request.

## CONSULTING

These clients will receive reviews and reports as contracted for at the inception of the advisory engagement.

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

It is our policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards, or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

From time-to-time various investment professionals and firms introduce their clients to MSR, and, in return, MSR will pay such independent professionals and firms (Solicitor) a referral fee. Whenever we pay a referral fee, we require the Solicitor to provide the prospective client with a copy of this document (*Part 2A of Form ADV: Firm Brochure*), *Part 2B of Form ADV: Supplement Brochure*, *Form CRS*, and a separate disclosure statement that includes the following information:

- the Solicitor's name and relationship with our firm;
- the fact that the Solicitor is being paid a referral fee;
- the amount of the fee; and
- whether the fee paid to us by the client will be increased above our normal fees in order to compensate the Solicitor. As a matter of firm practice, the advisory fees paid to us by clients referred by solicitors have not increased as a result of any referral.

The client acknowledges, in writing, the receipt of the Firm Brochure, Supplement Brochure, Form CRS, and the disclosure statement.

From time-to-time MSR employees refer potential new clients to the firm. In return, MSR will pay the employee a referral fee. The employee making the referral must provide each prospective client with a copy of this document (*Part 2A of form ADV: Firm Brochure*), *Part 2B of Form ADV: Supplement Brochure*, and *Form CRS*, along with a written disclosure of the terms of the referral agreement between MSR and the employee, including the compensation to be received by the employee from MSR. This fee does not increase or decrease the management fee any client pays to MSR. MSR discloses the referral arrangement to the employee referred client and asks the client to acknowledge, in writing, the receipt of the Firm Brochure and disclosure statement of the referral agreement.

MSR occasionally receives potential new client referrals from its existing clients and offers economic benefits such as gift cards to a restaurant or tickets to a local social event in appreciation for a client referral resulting in a new client relationship. These economic benefits are offered to some clients and not to others and differ in value among clients.

## **Item 15. Custody**

All clients' accounts are held in custody by unaffiliated broker/dealers, but MSR can access many client accounts through its ability to debit advisory fees. For this reason, MSR is considered to have constructive custody of client assets. As part of this billing process, the client's custodian is advised of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required to send to the client a statement showing all transactions within the account during the reporting period. Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should compare those statements to any account information or quarterly reports provided by MSR and contact us directly if they believe that there may be an error in their statements.

MSR is deemed to have constructive custody of client assets because we accept Standing Letters of Authorization from our clients which allows us to facilitate the transfer of funds to third parties identified by our clients. At all times we intend to comply with the SEC's No-Action Letter Dated 02/21/2017 to avoid the surprise audit requirements of the SEC's Custody Rule.

## **Item 16. Investment Discretion**

Clients hire us to provide discretionary portfolio management services. Where we have been provided investment discretion, we place trades in a client's account without obtaining specific client permission prior to each trade. Our discretionary authority includes the ability to do the following without contacting the client:

- Determine the security to buy or sell; and/or
- Determine the amount of the security to buy or sell.

Clients give us discretionary authority when they sign a discretionary advisory agreement with our firm and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by once again providing us with written instructions.

## Item 17. Voting Client Securities

Advisory clients may elect to delegate their proxy voting authority to us. Alternatively, clients may choose to receive, and vote proxies related to their own accounts. In these circumstances, we will consult with clients regarding the proxy vote upon request. With respect to ERISA accounts, we will vote proxies unless the plan documents specifically reserve the plan sponsor's right to vote proxies. To direct us to vote a proxy in a particular manner, clients should contact our office by telephone, electronic mail, or in writing.

Absent specific client instructions, MSR generally votes in line with third-party proxy research provided by Institutional Shareholder Services Inc. (ISS). MSR has contracted with ISS to support the firm's proxy management needs and has engaged ISS' end-to-end proxy voting services which include ISS' proxy voting guidelines (standard market-based and Benchmark guidelines). MSR has the responsibility for oversight of the third-party service provider and for ensuring that proxies are voted in the best interest of clients. When we have the discretion to vote proxies for our clients, we or the third party will vote those proxies in the best interests of our clients and in accordance with our established policies and procedures now based on ISS' proxy voting guidelines. However, if MSR does not agree with a recommended vote by ISS the firm may instruct ISS to vote otherwise and in the best interest of the client. Our firm will retain all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document created by us that was material to making a decision on how to vote proxies, and a copy of each written client request for information on how the adviser voted proxies. Prior to voting, MSR or the third-party service provider verifies whether an actual or potential conflict of interest with MSR exists in connection with the subject proposal(s) to be voted upon. The determination regarding the presence or absence of any actual or potential conflict of interest is documented. If our firm has a conflict of interest in voting a particular action, we will notify clients of the conflict and obtain client consent before voting the proxy.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting our office directly. Clients may request, in writing, information on how proxies for his/her shares were voted. If any client requests a copy of our complete proxy policies and procedures or how we voted proxies for his/her account(s), we will promptly provide such information to the client.

MSR has retained third-party Class Action Service Provider (SP) to assist clients in the recovery of claims from class action securities lawsuits. This SP charges a 20% contingency fee which is deducted from any settlement before proceeds are distributed to clients.

The SP will review available historical client records and make filings for open cases. Clients are automatically included in this service but may Opt-Out by providing written notice to MSR. If a client Opts-Out, MSR and the SP will not monitor class action filings for that client.



## **Item 18. Financial Information**

Under no circumstances do we require or solicit payment of fees in excess of \$1,200 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

As an advisory firm that maintains discretionary authority for client accounts, we are also required to disclose any financial condition that is reasonably likely to impair our ability to meet our contractual obligations. MSR has no additional financial circumstances to report and has never been the subject of a bankruptcy petition.