



**Van Den Berg Management I, Inc.**  
**dba Century Management Financial Advisors**  
**Part 2A of Form ADV**

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This Brochure provides information about the qualifications and business practices of Century Management Financial Advisors. If you have any questions about the contents of this Brochure, please contact us at (512) 329-0050. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Century Management Financial Advisors is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training.

Additional information about Century Management Financial Advisors is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

The purpose of Item 2 is to provide clients with a summary of the material changes that have been made to this Brochure since the filing of our last annual amendment to the Brochure.

This Brochure, dated March 22, 2024, replaces the version dated September 15, 2023.

Since the filing of our last annual amendment on March 10, 2023, the Advisor made the following material changes to the Brochure:

- **Item 4 – Advisory Business:** Added language regarding business succession and exit planning consulting services; and removed language regarding wrap-fee programs.
- **Item 5 – Fees and Compensation:** Added fee information for business succession and exit planning consulting services; and removed language regarding wrap-fee programs.

Our Brochure may be requested, at any time, by calling (512) 329-0050. Our Brochure (Form ADV) is also available on our website at [www.centman.com](http://www.centman.com), free of charge. The SEC's website also provides information about any persons affiliated with Century Management Financial Advisors who are registered, or are required to be registered, as investment adviser representatives of Century Management Financial Advisors.

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## **Item 4 – Advisory Business**

### **4. A. Advisory Firm Description**

Van Den Berg Management I, Inc. (the “Company” or “Advisor”), a Texas corporation, was founded by Arnold Van Den Berg in 1974 in order to provide investment management and financial planning services. Today, the Advisor offers a complete suite of wealth management and financial planning services under the name Century Management Financial Advisors. In addition, the Advisor serves as the investment adviser to The CM Advisors Family of Funds under the name CM Fund Advisors. The Advisor also conducts business under the names Century Management and Century Management Investment Advisors. The Advisor’s principal owner is Arnold Van Den Berg.

### **4.B. Types of Advisory Services**

The Advisor offers comprehensive wealth management services under the name Century Management Financial Advisors. These services include the investment management of equity, fixed income, and mutual fund portfolios; the investment management of retirement plans; and financial planning services. The Advisor also serves as the investment advisor of a mutual fund. Each of these services is described in more detail below.

#### **Investment Management Services**

The Advisor manages equity, fixed income, and mutual fund portfolios on behalf of its clients, primarily on a discretionary basis, pursuant to an investment advisory agreement with the client. These services are typically provided through separate accounts.

For most portfolio management clients, the Advisor will implement an investment strategy based on the client’s risk tolerance and investment objectives. However, for 401(k) plan clients (“401(k) Clients”), the Advisor will typically provide plan sponsors with a mutual fund line-up that will allow for broad diversification so that that a plan participant can actualize a specific investment objective. To implement these investment strategies (and, in the case of 401(k) Clients, objectives), the Advisor will use an investment method selected by the client. Each of these investment strategies and methods is described below.

**Investment Strategies:** The Advisor’s investment strategies are broadly defined in the following table:

Strategy	Risk Tolerance	Investment Objective	Objective Defined
Aggressive	An aggressive investor is willing to accept a substantial amount of risk in order to maximize returns	Aggressive Growth	Long-term growth is the primary objective
Moderately Aggressive	A moderately aggressive investor values higher long-term returns and is comfortable with higher volatility	Growth	Long-term growth is primary objective, income is secondary
Moderate	A moderate investor values growth, income, and risk reduction equally	Balanced	Long-term growth and current income are equally important
Moderately Conservative	A moderately conservative investor values preserving principal but is willing to accept a small amount of risk to seek some appreciation	Income & Growth	Income is primary objective, long-term growth is secondary
Conservative	A conservative investor values income and capital preservation over asset appreciation and is comfortable with lower returns in exchange for protecting principal	Income	Income and capital preservation is the primary objective

**Methods of Investing:** There are three primary methods of investment (each, a “Method”) in which the client may choose for the Advisor to use when implementing the investment strategy or objective.

- ***Method 1: Mutual Funds, ETFs, and Closed-End Funds:*** This Method primarily invests in mutual funds, including open-end mutual funds, closed-end mutual funds, and exchange traded funds (“ETFs”), to implement the client’s investment strategy.
- ***Method 2: Individual Stocks and Bonds:*** This Method primarily invests in individual stocks and bonds to implement the client’s investment strategy.
- ***Method 3: Any Type of Investment:*** This Method may invest in any type of investment, including mutual funds set forth in Method 1 above and individual stocks and bonds as set forth in Method 2 above, to implement the client’s investment strategy.

**Cash and Cash Equivalent Holdings:** Regardless of which Method is authorized by the client, the Advisor may invest discretionary advisory clients in cash or cash equivalent positions in any percentage for any length of time (including extended periods of time) when the Advisor, in its sole judgement, believes markets offer limited investment opportunities or are overpriced.

**Conflict of Interest:** The Advisor may recommend its separately managed account program, its managed mutual fund program, or its mutual fund (CM Advisors Fixed Income Fund, a series of the CM Advisors Family of Funds (the “CM Fund”)) to the client if the Advisor deems such products appropriate based on the client’s goals, objectives, risk tolerance, and time horizon. The client should understand that the Advisor’s recommendation of its own products and services creates a potential conflict of interest in that the Advisor has an incentive to recommend its own products and services rather than similar products and services of third parties. The client is under no obligation to invest in the Advisor’s separately managed account programs, its managed mutual fund program, or the CM Fund.

## **Retirement Plan Services**

We provide discretionary investment management services to retirement plans (including, without limitation, defined benefit pension plans (e.g., traditional defined benefit and cash balance pension plans), profit sharing plans, and 401(k) plans) (“Plans”) and non-discretionary investment management services to 401(k) Clients on an ongoing basis, as requested by the Plan sponsor. We are willing to accept “Investment Manager” status under Section 3(38) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) (for discretionary investment management services) or the designation as a “Co-Fiduciary” under Section 3(21)(A) of ERISA as part of our normal course of business. Depending on the needs and requests of the Plan sponsor, both our discretionary and non-discretionary services for Plans generally include assisting Plan sponsors with (1) policy guidance; (2) investment selection; (3) employee education; and (4) collaboration with the Plan’s third-party advisors and service providers.

- *Policy Guidance* - If the Plan has not yet established an investment policy statement (“IPS”), the Advisor may help the Plan sponsor in recommending an appropriate IPS that describes the Plan’s objectives, risk tolerance, and goals. If the Plan has established an IPS, the Advisor may review and monitor the IPS for consistency with the Plan’s objectives, and recommend any changes that the Advisor deems necessary,
- *Investment Selection* – The Advisor will generally perform the following investment selection services:

- With respect to Plans receiving discretionary services (“Discretionary Plans”), select or construct appropriate investments or investment options for the Plan, and with respect to Plans receiving non-discretionary services (“Non-Discretionary Plans”), recommend appropriate investments or investment options for the Plan.
- With respect to Plans that include participant-directed investments, select (with respect to discretionary Plans) or recommend (with respect to Non-discretionary Plans) a default investment option for the Plan that is a “qualified default investment alternative” under Section 404(c)(5) of ERISA;
- Monitor the investments or investment options for their continued appropriateness for the Plan; and
- Provide the Plan, upon request, with comments, analysis, and supporting information regarding the investments and/or investment options.

In selecting investments for Plans, the Advisor typically uses the investment strategies and methods described above, under “Investment Management Services.” However, for 401(k) Clients, the Advisor will typically provide plan sponsors with a mutual fund line-up that will allow for broad diversification so that a plan participant can actualize one of the investment objectives described in the chart under “Investment Management Services – Investment Strategies,” above.

- *Employee education* – Upon request, the Advisor will generally provide Plan participants with the following services, subject to travel, expense reimbursement, and quantity limitations:
  - Distribution of plan materials, including enrollment books, information regarding investment options, and other materials, and those provided by the Plan Administrator, to participants involved in sessions;
  - Make available, or direct Plan participants to, written or electronic materials discussing generally accepted investment principles, including asset allocation and diversification, for participants involved in sessions;
  - Lead virtual or in-person group educational sessions; and
  - Conduct virtual or in person individual participant calls or meetings as requested.
- *Collaboration* – The Advisor will share information with third-party administrators, accountants, auditors, attorneys, and other advisors to the Plan, as authorized by the Plan.

If the client accounts are part of the Plan, and we accept appointments to provide our services to such accounts, we acknowledge that we are a fiduciary within the meaning of section 3(38) of ERISA with respect to the provision of services identified as “Services Provided as an ERISA Fiduciary” in the Addendum to the Plan’s investment advisory agreement with the Advisor.

## Financial Planning

The Advisor offers three different types of financial plans to clients: (1) Focused Wealth Plans, (2) Comprehensive Wealth Plans, and (3) Social Security Optimization Plans (collectively, the “Wealth Plans”). Each of these Wealth Plans is described below.

**Focused Wealth Plan:** A Focused Wealth Plan is created for new clients as well as existing clients who don’t have or need a Comprehensive Wealth Plan.

The Focused Wealth Plan provides the client with the following:

- *Family Index Number:* The individual rate of return designed to help you work towards achieving your goals and objectives.
- *Personalized Cash-Flow Based Planning:* Narrowly tailored to identify and address your specific goals and objectives. Will consider clients’ current assets (stocks, bonds, mutual funds, CD’s, annuities, real estate holdings, etc.), earned income, investment income, social security, the possibility of inheritance, gifting, and miscellaneous income and expenses.
- *Risk Management Planning:* Comprehensive analysis of life, disability, long-term care, and other risk management solutions.
- *Social Security Analysis and Optimization:* Custom analysis and comparison of the social security claiming options that are available.
- *Solutions Center:* a proprietary cloud-based platform licensed through eMoney Advisors, LLC, where you will gain access to your own personal financial management website. The Solutions Center will give you access to your financial information through an interactive portal, and allow for up-to-date account balances, provide for comprehensive account aggregation, and allow for multiple customized cash flow and net worth scenario analyses to be performed. You will also be provided a client vault (“Client Vault”), which will allow you to share and store documents.

**Comprehensive Wealth Plan** - The Comprehensive Wealth Plan includes everything in the Focused Wealth Plan explained above, plus we analyze in detail the areas of insurance, investment, tax, retirement, and estate planning. We will work with your outside tax, estate, and insurance advisors to give you more comprehensive specialized knowledge and advice. During this part of the planning process, we will be your advocate and help you coordinate this advice.

The Comprehensive Wealth Plan will also give you access to the Solutions Center and a Client Vault. One key element of Solutions Center for Comprehensive Wealth Plans is that your tax, estate, and insurance advisor can be granted limited access to portions of your financial website that pertain to



their work.

**Social Security Optimization Plan-** This personalized plan will help clients analyze claiming strategies, show clients their Social Security income stream under different claiming scenarios, and help clients take advantage of innovative strategies designed to maximize benefits.

**Limitations:** The projections or other information generated and presented by the Advisor in Wealth Plans regarding the likelihood of various investment outcomes are hypothetical in nature and do not reflect actual investment results. There are risks associated with investing, including the risk of losing all or a portion of your invested capital. We recommend that in addition to working with the Advisor, clients work closely with their attorneys, accountants, insurance agents, real estate brokers and other investment professionals.

**Separate Agreement:** Clients are required to sign a separate agreement engaging the Advisor to prepare Wealth Plans, which outlines the terms of the service. Wealth Plans generally are provided on a one-time basis and are not intended to be used as the basis for an ongoing financial planning arrangement; however, the Advisor may agree to perform ongoing financial planning services to clients in certain cases. The results contained in Wealth Plans rely heavily on information the client has provided to the Advisor. Some or all of the information, goals, and/or objectives furnished by the client to the Advisor may change after the Wealth Plan has been presented to the client. It is important to note that any changes to the inputs, variables, or information provided to the Advisor may render the Plan less useful and, in some cases, obsolete.

### **Business Succession and Exit Planning Consulting Services**

The Advisor offers business succession and exit planning consulting services to businesses and business owners. The business succession and exit planning consulting services are designed to assist businesses and business owners prepare for leadership transition or sale. The business succession and exit planning consulting services include development of a summary report of business succession or exit plan readiness and development of a business succession or exit plan assessment and plan ("Business Exit Plan"), which includes a detail analysis of one or more of the following areas: (i) finance, (ii) planning, (iii) revenue and profit, and (iv) operations. The Advisor will work with your outside legal, accounting, tax, estate, and other professional advisors to give you more comprehensive specialized knowledge and advice. In addition, the Advisor offers to assist clients in implementing the Business Exit Plan.

**Limitations:** The reports, assessments, plans or other information generated and presented by the Advisor regarding business succession and exit planning recommendations and the likelihood of various outcomes are hypothetical in nature and do not reflect actual success. Changes in various circumstances, including changes in economic and market conditions and employee and family related issues may affect the outcome of the Business Exit Plan and its implementation. The Business Exit

Plan and its implementation may not be successful as anticipated. We recommend that in addition to working with the Adviser, clients work closely with their attorneys, accountants, tax advisors, insurance agents, business brokers and other investment professionals.

**Separate Agreement:** Clients are required to sign a separate agreement engaging the Advisor to provide the business succession and exit planning consulting services. The results contained in the reports, assessments or plans rely heavily on information the client has provided to the Advisor. Some or all of the information, goals, and/or objectives furnished by the client to the Advisory may change after the reports, assessments or plans have been presented to the client. It is important to note that any changes to the inputs, variables, or information provided to the Advisor may render the reports, assessments and plans less useful and, in some cases, obsolete.

### **General Consulting Services**

In addition to the foregoing services, the Advisor may provide general consulting services to clients. These services are provided as and when requested by the client and agreed to by the Advisor and may include the provision of non-discretionary investment advisory services.

### **Mutual Fund Advisory Services**

CM Fund Advisors serves as investment advisor and portfolio manager to the CM Fund, which has an investment strategy that generally corresponds to the Conservative Strategy for separate accounts.

## **4.C. Client Investment Objectives/Restrictions**

At the outset of each client engagement, the Advisor spends time with the client, asking questions, discussing the client's investment experience and financial circumstances, tolerance for risk, and broadly identifying major goals of the client. This information provided by the client guides our management of the client's account. It is the client's responsibility to promptly inform the Advisor if the information provided to the Advisor becomes materially inaccurate, or if the client's investment objective or risk tolerance has changed.

Discretionary advisory clients may request certain reasonable restrictions on the Advisor in the management of their accounts, such as prohibiting the inclusion of certain types of investments in an investment portfolio or prohibiting the sale of certain investments held in the account at the commencement of the relationship, with written notice to the Advisor. Each client should note, however, that restrictions, if accepted by the Advisor, may adversely affect the composition and performance of the client's investment portfolio. Each client should also note that his or her investment portfolio is treated individually by giving consideration to each purchase or sale for the client's account. For these and other reasons, performance of client investment portfolios within the same investment objectives, goals and/or risk tolerance may differ and clients should not expect that the composition

or performance of their investment portfolios would necessarily be consistent with similar clients of the Advisor.

#### **4.D. Wrap-Fee Programs**

The Advisor typically does not participate in wrap-fee programs at this time.

#### **4.E. Assets Under Management**

As of January 31, 2024, the Advisor had \$500,531,825 in assets under management. This figure includes all accounts, including the CM Advisors Fixed Income Fund, for which the Advisor has discretion and is paid a management fee.

- Discretionary basis: \$500,531,825.
- Non-Discretionary basis: \$0

### **Item 5 – Fees and Compensation**

#### **5.A. Adviser Compensation**

The Advisor is a fee-based wealth manager. A description of the fees generally charged for each of our advisory services is outlined below. However, at the sole discretion of the Advisor, our fees and fee minimums may be negotiable on a case-by-case basis. As such, fees for the same or similar services may vary from client to client. To the extent that fees are negotiable, some clients may pay more or less than other clients for the same services, depending, for example, on the account inception date, number of related accounts, total assets to be managed, investment strategy chosen by the client, or any other factor deemed relevant by the Advisor. In many cases, these fees will be different from the fee schedule that is currently available for the same or similar services.

##### **Discretionary Investment Management Services**

Our annual fee for discretionary investment management services (other than services for 401(k) Clients) is subject to a \$2,500 minimum and is calculated as follows:

<b>Market Value of Portfolio</b>	<b>Annual Fee</b>	<b>Presented Quarterly</b>
First \$5 million	1.00%	0.2500%
Over \$5 million	0.85%	0.2125%
The entire family is aggregated to determine asset size and, therefore, fees (there is no formal definition of family, but generally it is defined as parents and children).		

<b>Market Value of Portfolio</b>	<b>Annual Fee</b>	<b>Presented Quarterly</b>
Accounts that are exclusively fixed income will be carved out of the schedule above and charged the following annual rate:	0.50%	0.125%

The fee structure is tiered. For example, if a client had \$8,000,000 of household assets: \$7,000,000 allocated to various investment strategies and \$1,000,000 was allocated to an exclusive bond account, the annual fee would be determined as follows:

- \$5,000,000 at 1.00% = \$50,000
- \$2,000,000 at 0.85% = \$17,000
- Sub-total annual fee allocated to various strategies = \$67,000 +
- \$1,000,000 (exclusive bond account) at 0.50% = \$5,000
- Total annual household fee = \$72,000

In certain cases, as stated above, the Advisor may invest, or recommend that the client invest, assets in the client's portfolio in the CM Fund or in unaffiliated mutual funds, exchange-traded funds, or other investment funds. Clients should note that fees paid to the Advisor for investment management services are separate and distinct from the fees and expenses charged by unaffiliated funds (described in each fund's prospectus). These fees will generally include a management fee and other expenses.

The Advisor does not charge a separate management fee on client assets invested in the CM Fund, and such assets do not count towards the "Market Value of Portfolio" in the table above. However, the client will be charged a fee by the CM Fund on the assets invested in the CM Fund as outlined below and in the CM Fund's prospectus. The client will also be responsible for any transaction fees charged by the broker, custodian, bank, or trust company to buy or sell the CM Fund.

### **Investment Management of 401(k) Plans**

Our annual fee for services to 401(k) Clients (both discretionary and non-discretionary) is subject to a \$2,500 minimum. Each client receiving retirement plan services is charged a set fee based on the client's total assets under management, as outlined below:

<b>Market Value of Portfolio</b>	<b>Annual Fee</b>	<b>Presented Quarterly</b>
Less than \$1,000,000.00	0.55%	0.1375%
\$1,000,000.00 to \$2,499,999.99	0.45%	0.1125%
\$2,500,000.00 to \$4,999,999.99	0.35%	0.0875%
\$5,000,000.00 to \$9,999,999.99	0.25%	0.0625%
\$10,000,000.00 to \$24,999,99.99	0.20%	0.05%

Market Value of Portfolio	Annual Fee	Presented Quarterly
More than \$25,000,000.00	Negotiated on a case-by-case basis	

This fee schedule is not tiered. For example, if a client had \$10,000,000 assets under management, then the annual fee would be 0.20%.

### **Comprehensive Wealth Plan**

- \$1,000 for each \$1,000,000 of total assets.
- There is a \$2,500 minimum comprehensive wealth plan fee.
- Maximum comprehensive wealth plan fee is \$10,000.
- After the first year of services, the Advisor generally charges an annual fee, which is negotiated between each client and the Advisor on a case-by-case basis.
- The fees of tax, estate, and insurance advisors who we refer you to are separate from our own fees.

### **Focused Wealth Plan**

- The fee for the Focused Wealth Plan is \$1,500. However, this may be applied towards the Comprehensive Wealth Plan investment if or when the client upgrades wealth plans.
- After the first year of services, the Advisor generally charges an annual fee, which is negotiated between each client and the Advisor on a case-by-case basis.

### **Social Security Optimization Plan**

- The fee for the Social Security Optimization Plan is \$500. However, this may be applied towards the Focused Wealth Plan or the Comprehensive Wealth Plan if or when the client upgrades wealth plans.
- Because the Social Security Optimization Plan is a one-time service, there is no recurring annual fee.

These fees are negotiable and may vary from client to client.

### **Mutual Fund Advisory Services**

The CM Fund pays the Advisor fees for its investment advisory services. The Advisor charges the CM Fund an annualized management fee of 0.5% of the CM Fund's net asset value, as more fully described in the CM Fund's prospectus.

## **Business Succession and Exit Planning Consulting Services**

The fee for the Business Succession and Exit Planning Consulting Services is generally between \$5,000 - \$10,000 and is negotiated with the Advisor on a case-by-case basis.

## **General Consulting Services and Non-Discretionary Investment Management Services**

Fees for general consulting services and non-discretionary investment management services (except for non-discretionary investment management services for 401(k) Clients) are negotiated with the Advisor on a case-by-case basis.

### **5.B. Direct Billing of Advisory Fees**

The specific manner in which fees are charged by the Advisor is established in the client's written agreement with the Advisor. Fees for investment management services are generally billed quarterly. Wealth Plans are generally subject to a one-time fee in the first year of services (the "Wealth Plan Fee"), fifty percent (50%) of which is earned by the Advisor and due and payable upon the signing of the client's wealth plan agreement, provided that this first amount does not exceed \$1,200. The remainder of the Wealth Plan Fee is typically due and payable upon completion of the Advisor's Wealth Plan services. After the first year, clients receiving Focused Wealth Plans and Comprehensive Wealth Plans are generally subject to an additional fee, which is negotiated between the client and the Advisor. Succession and Exit Planning Consulting Services are generally subject to a one-time fee, fifty percent (50%) of which is earned by the Advisor and due and payable upon the signing of the client's consulting agreement, provided that this first amount does not exceed \$1,200. The remainder of the fee is typically due and payable upon completion of the Advisor's services. A client may pay the Advisor's fees by check or the client may authorize the deduction of fees directly from the client's account, which is maintained by an independent third-party custodian. Regardless of how management fees are paid, the Advisor typically will send the client a bill showing the amount of the quarterly advisory fee, the account value on which the fee is based, and how the fee was calculated. The Advisor typically will also send a statement of management fees with each quarterly report. Quarterly reports are usually sent three to four weeks after the end of each calendar quarter.

**IMPORTANT:** Clients are hereby put on notice that the custodian will not verify the Advisor's fee calculation and that it is the client's responsibility to review the Advisor's bills to ensure that fees were calculated accurately. If the client believes there is an error in the management fee, they should immediately call their relationship manager.

### **5.C. Other Non-Advisory Fees**

Clients may incur certain charges imposed by custodians, brokers, third-party investment advisors, consultants, or mutual funds, all of which will be charged separately from the Advisor's fee. Brokerage

and custodian fees are charged separately by the custodian or broker, and the Advisor's fees are exclusive of brokerage commissions, transaction fees, bank fees, margin interest, national securities exchange fees and other related costs and expenses that will be incurred by the client, as well as expenses resulting from other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. The client will be solely responsible for all commissions, transaction fees, and any other charge relating to trading or custody of securities in the client's account. The factors that the Advisor considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation is explained under Item 12- Brokerage Practices.

Discretionary advisory clients' funds awaiting investment are generally placed in a money market fund. In addition, as mentioned above, the Advisor may cause the discretionary advisory client to invest in mutual funds, exchange-traded funds, or other investment funds. The management fees and operational expenses charged by money market funds, other mutual funds, exchange traded funds, and other investment funds are specific to each fund and are disclosed in the fund's prospectus. Therefore, accounts with assets invested in mutual funds will bear a proportionate share of the fund's fees and expenses, along with accounts of other shareholders of the fund. Some mutual funds may impose sales charges, in which case the client would pay an initial or deferred sales charge that is not included in the Advisor's fees. In addition, insurance products held by clients include internal management fees and operational expenses specific to each insurance product. Such charges, fees, and commissions are exclusive of and in addition to the Advisor's fee.

The Advisor typically does not recommend or select other investment advisors ("Independent Managers") for clients at this time. However, in the event that the Advisor recommends or selects Independent Managers for clients in the future, the Advisor anticipates that such Independent Managers' fees will be charged by the Independent Managers, separate from and in addition to the Advisor's fee.

#### **5.D. Required Advance Payment of Fees**

The Advisor typically bills its fees on a calendar quarter basis, three months in advance. Fees will be based on account asset values as of the last business day of the previous quarter (for example: March 31, June 30, September 30, and December 31) which in turn will cover the next three months' worth of management services. There are, however, special situations where clients are billed in arrears each calendar quarter. For performance-based billing, please see the section entitled Performance-Based Fees in this Brochure (Form ADV 2, Item 6).

Accounts that begin partway through a calendar quarter will be charged a prorated fee. The first quarterly investment advisory fee payment will be based upon the opening value of the account.

Furthermore, the first payment will be prorated to cover the period from the date the account is opened through the end of the next full calendar quarter. Thereafter, the fee will be based on the account value on the last business day of the preceding calendar quarter and will be due the following business day.

The client may withdraw account assets upon notice to the Advisor, subject to the usual and customary securities settlement procedures. Fee adjustments will be made for partial withdrawals. However, fee adjustments generally are not made for account appreciation or depreciation within a billing period.

Either the Advisor or the client may terminate their investment advisory agreement at any time, subject to any written notice requirements in the investment advisory agreement, which typically requires 30 days' written notice. Upon termination of the investment advisory agreement, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable. It is the client's sole responsibility to liquidate any and all positions after the Advisor receives notice of termination. If the agreement is terminated partway through a calendar quarter, fees that were collected in advance will be refunded to the client, pro-rata, based on the number of days remaining in the calendar quarter following the effective date of termination.

For the Business Succession and Exit Planning Consulting Services, the Advisor typically bills the client for ½ of the aggregate fees for such service upon engagement up to \$1,200. The remainder of the fees are typically billed to the client upon completion of each project.

#### **5.E. Compensation for Sale of Securities or Other Investment Products**

The Advisor's supervised persons do not accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

In limited cases, the Advisor may enter into performance fee arrangements with qualified clients; such fees are subject to individualized negotiation with each such client.

Performance-based fees are based upon an account's gross profits per annum, rather than a fixed management fee based upon the market value of the account at the end of each calendar quarter. Generally, no hurdle rates or high-water marks apply in the calculation of the gross profits. However, performance fees are subject to negotiation on a case-by-case basis. To be eligible for the performance-based fee option, the client must meet the definition of a "qualified client" under Rule 205-3 under the Investment Advisers Act, as amended. The Advisor will use the total gross profits



during a one-year billing period to determine if the performance fee may apply. Gross profits typically include realized gains, unrealized gains, dividends, and interest. For accounts that are on a performance fee schedule that start in the middle of a calendar quarter, the first year's billing and measurement cycle will include the pro-rata time remaining in the calendar quarter in which the accounts starts, plus one full 12 month period. This will result in the first billing cycle being longer than one year but less than 1.25 years. Performance-based fees are charged annually in arrears.

Performance-based fee arrangements create a conflict of interest in that they incentivize the Advisor to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. In addition, portfolio managers responsible for the management of performance-based accounts may also be responsible for the management of accounts with an asset-based fee or other fee arrangement, which creates an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. The Advisor has implemented trading practices and procedures to help ensure that all clients are treated fairly and equally and prevent this conflict from influencing the allocation of investment opportunities among clients.

## **Item 7 – Types of Clients**

The Advisor provides portfolio management services to a diverse group of clients, including individuals, trusts, limited partnerships, corporations, investment companies (including mutual funds), retirement plans (including, without limitation, defined benefit pension plans (such as cash balance pension plans), profit sharing plans, and 401(k) Clients), estates, and charitable organizations. Accounts are managed on a discretionary or non-discretionary basis. The Advisor primarily provides these clients with discretionary advisory services, but the Advisor also provides non-discretionary advisory services to 401(k) Clients and may provide non-discretionary services to other types of clients in the future.

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

### **8.A. Methods of Analysis and Investment Strategies**

As described above under Item 4 – Advisory Business, the Advisor has developed five general investment strategies—Aggressive, Moderately Aggressive, Moderate, Moderately Conservative, and Conservative—each of which is designed to match with a specific risk tolerance and investment objective common among investors. After the Advisor matches a client with a specific investment strategy (based on the client's risk tolerance and investment objective), the client selects one of the Advisor's three investment methods—Individual Stocks and Bonds, Mutual Funds, ETFs, and Closed-End Funds, and Any Type of Investment—to implement the strategy in the client's portfolio. For 401(k) Clients, the Advisor works with the 401(k) Client to develop an investment strategy consistent with Plan's IPS.

In selecting and allocating the individual stocks, bonds, and investment funds that make up these portfolios, the Advisor generally uses the methods of analysis described below:

## **Methods of Analysis**

### ***Individual Equity Securities (i.e. common and preferred stocks):***

The process for selecting individual equity securities for client accounts includes idea generation, initial analysis, detailed analysis, review and approval process, and portfolio construction.

#### **Idea Generation:**

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- We screen the universe of public companies looking for those that meet our various ratio and multiple requirements, along with important balance sheet characteristics.
- We continuously review our internal database of companies we have analyzed and, in many cases, owned throughout the years.
- Our research team contributes their knowledge, insight, and expertise regarding industries, companies, and general financial information.
- Individual company news and results can provide event-driven opportunities.
- Economic data and other news items can provide the basis for investment themes.

#### **Initial Analysis:**

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- We review the strength of the company's balance sheet. Cap size, industry, and market environment are influencing factors.
- We review the quality of the business and look for leaders in an industry or sector that are likely to recover or flourish.
- We study the business drivers of the company. We seek to identify those companies that are nearing an up cycle, that are likely to experience new growth opportunities, or that are long-term compounders. We look for potential hidden values.
- We determine the company's value proposition. This gives us the opportunity to see if a new idea has the same or stronger return potential than what we currently own or have on our list of approved ideas.

#### **Detailed Analysis:**

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- We build a 10- to 20-year in-depth historical financial model. This allows us to take a deeper look into identifying the key value drivers of the company, key turning points in revenues and margins, and high and low multiples such as EV/EBITDA, Price/Book, P/E, etc., over an extended period of time.
- We typically incorporate a detailed analysis of the company's various sectors and divisions in order to further identify and quantify the business drivers and hidden values. In addition, we

make adjustments for new lines of business, for sold or closed lines of business, as well as for different capital structures.

- We project the future financials of the company under various scenarios, adjusting for growth rates, interest rates, margins, multiples, and other aspects of the company's financial statements that may affect its current and future value.
- We determine our intrinsic value and actionable price points. While these can be specific numbers, we typically think of these price points in terms of ranges and zones in which the company can trade given certain circumstances.

#### **Review and Approval Process:**

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- Analysts present their new investment idea to portfolio managers, who then focus their attention on revenue drivers, cyclical versus structural recovery issues, as well as review past business cycles. In addition, portfolio managers review the company's market share gains or losses, as well as new growth opportunities.
- Portfolio managers make the final determination for a stock to be included on the approved list, along with actionable price points and maximum position sizes.

#### **Portfolio Construction:**

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- Approved stocks are sorted by the best reward-to-risk characteristics. This list also incorporates cap size, the company's sector and industry, and other important information used for comparative analysis.
- Specific portfolio construction characteristics will vary depending on the client's chosen investment strategy. Details, such as specific trading instructions, maximum position size, average number of holdings, as well as minimum and maximum cash levels allowed in a portfolio, may vary.
- The monitoring and review of individual holdings and investment strategies are performed by portfolio managers and other members of the investment team on an ongoing basis.

#### ***Mutual Funds and ETFs:***

The process for selecting individual mutual funds and ETFs for client accounts includes idea generation, detailed screening, review and analysis, as well as portfolio construction.

#### **Idea Generation:**

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- Using the Morningstar Direct institutional database, we screen the universe of open-end mutual funds and ETFs looking for exposure to various investment strategies, themes, and categories (*e.g. value, growth, natural resources, REITs, short-term bonds, intermediate bonds, long-term bonds, international markets, emerging markets, etc.*).

- Database screening in search of ideas may also include using more narrowly defined institutional categories, global categories, and Morningstar category medalists.
- Other databases used in idea generation and research process may include the advisor/institutional portals from Dimensional Fund Advisors®, Vanguard®, Blackrock®, and Bloomberg®.

#### Detailed Screening, Review, and Analysis:

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- We review the purchase information (*minimum investment amounts, platform availability, confirmation that the investment is still open to new investors*) for funds/ETFs, as well as fees and expenses, and the stability of the parent fund family.
- We review the portfolio manager or management team, including their portfolio management experience, tenure with the fund/ETF, their investment process, and whether they have any personal investments in the fund/ETF.
- We review the current valuation ratios (e.g. price-to-earnings, price-to-book, and price-to-sales), the turnover ratio, fund holdings, sector and industry weightings, investment geographies, market cap, capital gains exposure, and distribution history.
- We review various risk measurements such as the upside/downside capture ratio, standard deviation, Sharpe ratio, Sortino ratio, information ratio, and R-squared.
- We review performance on a pre-tax and after-tax basis, on a risk-adjusted basis, as well as versus respective peer groups and category averages across various time periods.
- For fixed income funds/ETFs, we review the average effective duration, the average effective maturity, the average credit quality, and the average effective coupon.

#### Portfolio Approval and Construction:

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- Portfolio managers review the final recommendations for a fund/ETF to be included on the approved list.
- Portfolio managers then construct, stress test, and build allocations around various factors and objectives such as, but not limited to, risk tolerance, time horizon, preference for growth, income, or capital preservation, and tax efficiency.

#### Model Portfolio Rebalance Philosophy:

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Mutual fund and ETF portfolios will be monitored on an ongoing basis. Various events or changing fund/ETF characteristics that could potentially lead to a rebalancing of the portfolio or an outright change or replacement of a fund/ETF that is included in a portfolio's allocation include, but are not limited to:

- The portfolio's equity or fixed income exposure surpasses its targeted allocation or risk tolerance guidelines.

- A style drift or change in a fund/ETF relative to its investment mandate.
- A change in a fund/ETF's portfolio manager or management team.
- A material change in a fund/ETF's valuation characteristics.
- A material change in a fund/ETF's liquidity.
- A fund/ETF's soft or hard close to new or additional deposits.
- Material changes occurring in the overall economic or regulatory environment (including, but not limited to, changes in interest rates and inflation).
- Deposits or withdrawals to and from the Client's investment account.

### ***Individual Fixed Income Securities:***

The process for selecting individual fixed income securities client accounts includes idea generation, credit analysis, review and approval process, as well as portfolio construction.

#### **Idea Generation:**

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- We screen the universe of public companies looking for those that meet our various credit and ratio requirements.
- We collaborate with our equity research team for their knowledge, insight, and expertise regarding industries, companies, and general financial information.
- We examine dealer inventory, network with various brokers, monitor select offerings, as well as review individual company and sector news.
- We analyze economic data and other news items that can provide the basis for investment themes.

#### **Credit Analysis:**

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- We review the quality of the business. We look for leaders in an industry or sector that are likely to recover or flourish.
- We often analyze the strength of the company's financial statements and business model.
- We often look to one of the various credit rating agencies to help verify the credit quality for an individual security.
- As part of our margin of safety consideration, we examine a bond's discount to its implied credit rating and its historical spread.

#### **Review and Approval Process:**

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- Analysts present their new investment opportunities to portfolio managers. This gives the portfolio managers the opportunity to challenge, test, or discuss the analyst's research and major assumptions.

- Portfolio managers focus their attention on attractively priced securities with projected stable or improving credit profiles and favorable reward-to-risk characteristics.
- Portfolio managers make the final determination as to whether or not the reward-to-risk characteristics of the company warrant putting it on the approved list, as well as determine the final actionable price points and maximum position sizes.

### Portfolio Construction:

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- The direction of inflation, interest rates, risk premiums, and inventory will help drive our asset allocation.
- Specific portfolio construction characteristics will vary depending on the client's chosen investment strategy and objective (e.g. focused on total return, income, or bond ladder).
- The portfolio managers monitor and review individual holdings and their spread-to-risk characteristics, on an ongoing basis.

### Sources of Information

Currently, the Advisor has various sources of information and data for research, investment strategies, portfolio management, and financial planning.

Research sources include, but are not limited to, our own internal database as well as from Bloomberg, S&P Capital IQ, Value Line®, Morningstar®, Edgar, Wall Street Journal, Barron's, various industry and trade journals, various newsletters, and various third-party research. In addition, we may also have direct contact with various company representatives, participate or listen to company conference calls, review materials on company websites, conduct on-site company visits, and attend industry trade shows. Sources of financial planning information and research include, but are not limited to, eMoney, Morningstar®, Dimensional Fund Advisors, Vanguard, Blackrock, Horseshmouth, Covisum Tax Clarity, various industry trade publications and journals, and proprietary systems.

### 8.B. Material Risks of Investment Strategies or Methods of Analysis

All investment portfolios are subject to risks. There can be no assurance that client investment portfolios will be able to fully meet their investment objectives and goals, or that investments will not lose money.

Below is a description of several of the principal risks that client investment portfolios face.

Market Risk: Market risk refers to the risk that the value of securities in a portfolio may decline due to daily fluctuations in the securities markets that are generally beyond the Advisor's control. The value of the client's portfolio will change daily based on many factors, including fluctuation in interest rates, the quality of the instruments in the client's portfolio, national and international economic conditions, and general fixed income market conditions. Certain market events could increase volatility and

exacerbate market risk, such as changes in governments' economic policies, political turmoil, environmental events, trade disputes, and epidemics, pandemics or other public health issues. For example, the novel coronavirus disease (COVID-19) that has recently emerged has resulted in closing borders, quarantines, cancellations, disruptions to supply chains and customer activity, as well as general concern and uncertainty, thus causing significant disruptions to global business activity and financial markets, the broad effects of which are currently difficult to assess. Turbulence in financial markets, and reduced liquidity in equity, credit and fixed income markets may negatively affect many issuers domestically and around the world, and can result in trading halts, any of which could have an adverse impact on the client's portfolio. During periods of market volatility, security prices (including securities held by the client) could fall drastically and rapidly and therefore adversely affect the value of the client's portfolio, and you could lose money over short or long term periods.

Economic Risk: Changes in economic conditions, including, for example, changes in interest rates, inflation rates, employment conditions, competition, technological developments, political and diplomatic events and trends, and tax laws may adversely affect the business prospects or perceived prospects of the companies in which the client is invested. None of these conditions are within the control of the Advisor and no assurances can be given that the Advisor will anticipate these developments. Accordingly, adverse economic changes may cause losses in the client's account. In some cases such losses could be permanent.

Continuation of Negative Economic Conditions: A continuation of the current downturn in the economic conditions in the United States and around the world may cause further declines in the securities markets resulting in decreases in the value of the securities held by clients. Such conditions could adversely affect the liquidity of the investments held in client accounts.

Sector Risk: Sector risk is the possibility that securities within the same group of industries will decline in price due to sector-specific market or economic developments. If the Client's investments are more heavily weighted in a particular sector, the value of its shares will be particularly sensitive to declines in that sector. Additionally, economic or market factors, regulation or deregulation, and technological or other developments may negatively impact all companies in a particular sector or certain companies within a particular sector and therefore the value of the client's portfolio will be adversely affected. As discussed below under the "General Investment Risks – Lack of Diversification Risk", client accounts are not subject to any restrictions with respect to the investments in any particular sector.

Management Style Risk: The ability of the Advisor to meet a portfolio's investment objective is directly related to the allocation of the portfolio's assets. **The Advisor's judgments about the attractiveness, value, and potential for appreciation of particular investments in which a client's assets are invested may prove to be incorrect and there is no guarantee that the Advisor's judgments will produce the desired results.** In addition, the Advisor may allocate a client's assets to under-

emphasize or over-emphasize types of investments under the wrong market conditions, in which case the client's account value may be adversely affected. In some cases certain losses could become permanent. While the Advisor's style of investment is intended to be applicable across different markets in a variety of market conditions, there may be periods of time in one or more markets during which the Advisor's management style is more or less effective or ineffective. In addition, different styles of management tend to shift into and out of favor with stock market investors depending on market and economic conditions. Because the Advisor, when investing or suggesting investments in stocks, generally intends to focus on value-oriented stocks (i.e., stocks that the Advisor believes are undervalued), a portfolio's performance may at times be better or worse than it would have been if the Advisor had focused on other types of stocks (e.g., "growth" stocks) or had a broader investment style.

Interest Rate Risk: Increases in interest rates typically lower the present value of a company's expected future earnings. Since the market price of a stock changes continuously based upon investors' collective perceptions of future earnings, stock prices will generally decline when investors anticipate or experience rising interest rates. Fixed income securities often move in the opposite direction of interest rates. Therefore, a change in interest rates could materially impact the return of fixed income securities positions, especially if the client's portfolio is heavily weighted in fixed income securities that are particularly sensitive to interest rate fluctuations (e.g., fixed income securities with long-term maturities, zero coupon bonds, and debentures). This risk is especially prevalent now due to the current period of historically low interest rates and the potential for a general rise in interest rates in the future.

Liquidity Risk: Liquidity risk is the risk that a particular investment cannot be sold at an advantageous time or price. For example, if a fixed income security is downgraded or drops in price, the market demand for that security may be limited, making that security difficult to sell. Additionally, the market for certain securities may become illiquid under adverse market or economic conditions, independent of any specific adverse changes in the conditions of a particular issuer.

Special Situations: A "special situation" generally refers to the securities of a particular company that, in the opinion of the Advisor, will, within a reasonable period of time, be accorded market recognition at an appreciated value or decline by reason of a development particularly or uniquely applicable to that company and regardless of general economic conditions or movements of the market as a whole.

Investments in special situations carry substantial risk of loss in the event that the development expected by the Advisor does not occur or, when the development does occur, it does not attract attention in the market that causes its price to rise or fall in the manner that the Advisor expected. Accordingly, any loss to the client's portfolio resulting from an investment in a special situation could be significant. In some cases such losses could be permanent.



Event Driven: The Advisor may invest, or recommend an investment, in event driven opportunities. This generally refers to strategies involving investments in opportunities created by significant transactional events, such as spin-offs, mergers and acquisitions, industry consolidations, liquidations, reorganizations, bankruptcies, recapitalizations and share buybacks and other extraordinary corporate transactions. Event-driven portfolio managers seek to profit by correctly predicting the effects and outcomes of such transactions. Event-driven trading often focuses on merger arbitrage, distressed securities, value-with-a-catalyst, and special situations investing.

Investments in event driven opportunities carry substantial risk of loss in the event that the development expected by the Advisor does not occur or, when the development does occur, it does not attract attention in the market that causes its price to rise or fall in the manner that the Advisor expected. Accordingly, any loss to the client's portfolio resulting from an investment in an event driven opportunity could be significant. In some cases such losses could be permanent.

Distressed Investment Risk: The Advisor may invest or recommend an investment in securities of issuers that are in financial distress, experience poor operating results, have substantial capital needs or negative net worth, face special competitive or product obsolescence problems, or that are involved, or become involved, in bankruptcy or reorganization proceedings. These securities may include, without limitation, common or preferred stocks, senior or subordinated debt securities, warrants, and other evidences of indebtedness. There is significant business risk associated with distressed investments. There can be no assurance that the Advisor will correctly evaluate the nature and magnitude of all factors that could affect the outcome of an investment situation. Investments in financially troubled companies involve substantial financial and business risks that can result in substantial or even total loss. Among the risks inherent in such investments is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Investments in securities of companies in bankruptcy, liquidation or reorganization proceedings are often subject to litigation among the participants in such proceedings. Such investments may also be adversely affected by federal and state laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and a bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. These and other factors contribute to above-average price volatility and abrupt and erratic movements of the market prices of these securities. The market prices of these investments may never reflect their intrinsic values, or if the market prices do reflect their intrinsic values, it may take a number of years to reach those values.

Securities of financially troubled companies may require active monitoring and could, at times, require participation in bankruptcy or reorganization proceedings by the Advisor. To the extent that the Advisor becomes involved in such proceedings, the Advisor may have more active participation in the affairs of the issuer than that assumed generally by an investor. However, the Advisor is under no obligation to pursue and/or participate in any bankruptcy or reorganization.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price paid for the security in respect to which such distribution was made.

Risks Associated with Bankruptcy Cases: Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors and the investors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of the Advisor's clients. Furthermore, there are instances where creditors and equity holders lose their ranking and priority, such as if they are considered to have taken over management and functional operating control of a debtor. Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and its creditors; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets. Investments in bankrupt companies involve substantial financial and business risks that can result in substantial or total loss.

High Risk Investments: All investments in securities and other financial instruments involve a degree of risk that could render the entire investment a total loss. No assurance can be given that any investment program of the Advisor will be successful.

Lack of Diversification Risk: Unless otherwise specifically directed by the client in writing, the Advisor is not subject to any restrictions with respect to investments in any particular issuer, industry or type of investment. Accordingly, a client's account may or may not have a diversified portfolio of investments at any given time, and may have large amounts of assets invested in a very small number of companies or industries or types of investments from time to time. By concentrating client assets in fewer companies / industries / sectors or a group of companies / industries / sectors, the client is subject to the risk that economic, political, or other conditions that have a negative effect on that company / industry / sector or group of companies / industries / sectors will negatively impact the client's portfolio to a greater extent than if the client's assets were invested in a more diversified variety of industries / sectors. A substantial loss, with respect to any particular investment, especially when the client's portfolio is undiversified, may result in a substantial negative impact on the aggregate value of the client's portfolio. In some cases an individual investment may become a total and permanent loss.

Portfolio Turnover: Certain of the Advisor's strategies will engage, from time to time, in a higher volume of trading activity than that of other investment strategies and investment vehicles. Portfolio turnover involves expenses in the form of brokerage commissions and other transaction costs. For taxable accounts, investors will be subject to higher taxes to the extent that higher portfolio turnover results in a higher proportion of short-term capital gains instead of long-term capital gains.

## **8.C. Security Recommendation Risks**

### **Risks of Certain Types of Securities Investments**

Equity Securities: Prices of equity securities may fluctuate in response to many factors, including, but not limited to, the activities of the individual issuers, general market and economic conditions, interest rates, and specific industry changes. Such price fluctuations subject the client to potential losses. In addition, regardless of any one company's particular prospects, a declining stock market may produce a decline in prices for all equity securities, which could also result in losses for a client. Market declines may continue for an indefinite period of time, and investors should understand that during temporary or extended bear markets, the value of equity securities will likely decline. As such, clients may suffer significant short-term losses. Furthermore, it is possible that some short-term losses could become long-term losses and in some cases even permanent losses.

Preferred Stock: Investing in preferred stocks carries a number of risks. Generally, preferred stock is less liquid than other equity securities, such as common stocks. Preferred stock is also subordinated to bonds and other debt instruments in a company's capital structure in terms of priority to receive corporate income and liquidation payments, and therefore will be subject to greater credit risk than those debt instruments. Preferred stock may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period. If the client owns preferred stock that is deferring its distributions, the client may be required to report income for federal income tax purposes although it has not yet received such income in cash. Holders of preferred stock may have limited voting rights with respect to the issuing company, and a company's preferred stock may be less liquid than a company's common stock, which may make it difficult for the Advisor to liquidate the client's preferred stock holdings.

Investments in Small and Micro Cap Companies: The Advisor may invest or suggest an investment of a significant portion of the client's assets in securities of companies with small or micro market capitalizations. Smaller companies are typically more volatile and have a higher risk of loss than larger companies, and may be highly speculative. This greater risk is, in part, attributable to the fact that small cap and micro-cap companies generally lack depth of management and have less experienced management teams than larger-capitalization companies, serve smaller markets, have smaller market share, and find it more difficult to obtain financing for growth or potential development than larger companies. Because small and micro-cap companies normally have fewer shares outstanding than

larger companies, it may be more difficult to buy or sell significant amounts of such shares without an unfavorable impact on prevailing prices. In addition, small cap companies may not be well-known to the investing public, may not be followed by the financial press or industry analysts, and may not have institutional ownership. These factors affect the Advisor's access to information about the companies and the stability of the markets for the companies' securities. Due to these and other factors, the stock prices of small and micro-cap stocks may be more susceptible to declines in adverse market or economic conditions than larger companies. In addition, small and micro-cap companies may be less liquid than larger companies and therefore subject to greater potential for significant price declines.

Undervalued Companies: The Advisor may invest or suggest investments in companies that, in our sole discretion, we consider "undervalued." The securities of an undervalued company may be depressed in value due to factors including, but not limited to, disappointments in recent earnings, diminished expectations regarding earnings, unexpected or expected adverse economic or industry conditions, or it may simply be that a company is undervalued because it have fallen out of favor or because they are not attracting sufficient investor interest. For example, a company may be undervalued because the value of its securities has not responded to recent growth in revenues and net income, or because the value of its securities has fallen to an extent believed to be excessive as a result of unfavorable news, a negative occurrence or a reduction in expectations of company prospects, or deteriorated financial condition of the company.

Investments in securities that the Advisor believes to be undervalued may be accompanied by a substantial or even a permanent risk of loss because the Advisor may be mistaken in its assessment of whether a particular security is truly undervalued when purchased. This may result in material losses for the client's portfolio on those investments.

Real Estate Securities. The Advisor may invest or suggest investment in readily marketable securities issued by companies that invest in real estate or interests therein. The Advisor may also invest or suggest investment in readily marketable interests in real estate investment trusts ("REITs"). REITs are generally publicly traded on the national stock exchanges and in the over-the-counter market and have varying degrees of liquidity. Investments in real estate securities are subject to risks inherent in the real estate market, including risks related to changes in interest rates, possible declines in the value of real estate, adverse general and local economic conditions, possible lack of availability of mortgage funds, overbuilding in a given market and environmental problems.

Options. As part of the Advisor's hedging and investment strategy, the Advisor may invest or suggest investment in the options markets. The purchase or sale of an option involves the payment or receipt of a premium payment by the client and the corresponding right or obligation, as the case may be, to either purchase or sell the underlying security or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument's price does not change in the manner expected, so that the option expires worthless and the investor loses

its premium. Selling options when an investor does not own the respective underlying security, on the other hand, involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying security in excess of the premium payment received.

Stock Index Options. The Advisor may purchase and sell, or suggest a purchase and sell in, call and put options on stock indices listed on securities exchanges or traded in the over-the-counter market for the purpose of realizing its investment objectives or for the purpose of hedging its portfolio. A stock index fluctuates with changes in the market values of the stocks included in the index. The effectiveness of purchasing or writing stock index options for hedging purposes will depend upon the extent to which price movements in the client's portfolio correlates with price movements of the stock indices selected. Because the value of an index option depends upon movements in the level of the index rather than the price of a particular stock, whether the client realizes gains or losses from the purchase or writing of options on indices depends upon movements in the level of prices in the stock market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular stocks. Accordingly, successful use by the Advisor of options on stock indices is subject to the Advisor's ability to correctly predict movements in the direction of the stock market generally or of particular industries or market segments.

U.S. Government Obligations Risk. Securities issued by the U.S. government or its agencies are subject to risks related to the creditworthiness of the U.S. government. In addition, such securities may not be backed by the "full faith and credit" of the U.S. government, but rather by a right to borrow from the U.S. government or the creditworthiness of the issuer itself. The value of any such securities may fluctuate with changes in credit ratings and market perceptions of the U.S. government and the issuers of the securities, as well as interest rates and other risks applicable to fixed income securities generally.

## **Mutual Funds and Exchange-Traded Funds**

Investment Companies Generally: Investing in securities issued by registered investment companies, such as ETFs or mutual funds, involves the paying of a portion of the operating costs of the investment companies. These costs include management, brokerage, shareholder servicing, and other operational expenses. Since these costs may involve the duplication of advisory fees and other expenses, clients may indirectly pay higher operational costs than if clients owned shares of the underlying investment company directly. Further, investments in investment companies are subject to all of the underlying risks of such investment companies.

ETFs: An ETF is typically an investment company registered under the 1940 Act that holds a portfolio of common stock or bonds. ETFs may be actively managed or index-based. Actively managed ETFs are subject to management risk and may not achieve their objective if the ETF manager's expectations regarding particular securities or markets are not met. An index-based ETF's objective is to track the

performance of a specific index. Index-based ETFs generally invest in a securities portfolio that includes substantially all of the securities (in substantially the same amount) included in the applicable index. Since passively managed ETFs are designed to track an index, securities may be purchased, retained, and sold when an actively managed ETF would not do so. As a result, passively managed ETFs can expect greater risk of loss (and a corresponding prospect of gain) from changes in the value of the securities that are heavily weighted in the index than would be the case if the ETF were not fully invested in such securities.

ETFs are traded on a securities exchange based on their market value. An investment in an ETF generally presents the same primary risks as an investment in a conventional registered investment company (i.e., one that is not exchange traded), including the risk that the general level of securities prices, or that the prices of securities within a particular sector, may increase or decrease, thereby affecting the value of the shares of an ETF. ETFs are also subject to the following risks that often do not apply to conventional registered investment companies: (i) the market price of the ETF's shares may trade at a discount to the ETF's net asset value, and as a result, ETFs may experience more price volatility than other types of portfolio investments and such volatility could negatively impact the value of the client's portfolio; (ii) an active trading market for an ETF's shares may not develop or be maintained at a sufficient volume; (iii) trading of an ETF's shares may be halted if the listing exchange deems such action appropriate; (iv) ETF shares may be delisted from the exchange on which they trade; and (v) activation of "circuit breakers" by the exchange (which are tied to large decreases in securities prices used by the exchange) may temporarily halt trading in the ETF's stock. ETFs are also subject to the risks of the underlying securities or sectors that the ETF is designed to track.

## **Foreign Securities**

General Risks: There are substantial risks involved when investing in foreign securities that may not be present in domestic investments. For example, there is generally less public information available about foreign companies when compared to U.S. companies. There also may be less governmental supervision of securities markets, brokers, and issuers of securities than in the U.S. Foreign issuers are generally not bound by uniform accounting, auditing, and financial reporting requirements and standards of practice comparable to those applicable to domestic issuers. Investments in foreign securities also involve the risk of possible adverse changes in investment or exchange control regulations, expropriation or confiscatory taxation, political or financial instability, or diplomatic and other developments which could affect such investments. Further, economies of particular countries or areas of the world may differ favorably or unfavorably from the economy of the U.S. In addition, foreign securities and dividends and interest payable on those securities may be subject to foreign taxes, including taxes withheld from payments on those securities. Foreign securities often trade with less frequency and volume than domestic securities and therefore may exhibit greater price volatility. Foreign securities are also subject to currency risk, as described below. Additional costs associated

with an investment in foreign securities may include higher custodial fees than those applicable to domestic custodial arrangements, generally higher commission rates on foreign portfolio transactions, and transaction costs of foreign currency conversions.

Dividend/Interest Risk: Amounts payable on certain foreign securities investments may be subject to foreign withholding taxes, thus reducing the net amount available for distribution to clients.

Currency Risk: Foreign securities involve currency risks. The U.S. dollar value of a foreign security tends to decrease when the value of the dollar rises against the foreign currency in which the security is denominated and tends to increase when the value of the dollar falls against such currency. Fluctuations in currency exchange rates may also affect the earning power and asset value of the foreign issuer of the security. Dividend and interest payments may be returned to the country of origin based on the exchange rate at the time of disbursement, and restrictions on capital flows may be imposed. Losses and other expenses may be incurred in converting between various currencies in connection with purchases and sales of foreign securities.

## **Debt Securities**

General Risks: There are risks associated with investment in bonds and other fixed income securities which include credit risk, interest rate risk (as described above), maturity risk, and investment-grade securities risk.

Credit Risk: Credit risk is the risk that the issuer or guarantor of a debt security, or counterparty to a transaction involving a debt security, will be unable or unwilling to make timely principal and/or interest payments, or otherwise will be unable or unwilling to honor its financial obligations. Issuers of fixed income securities who are experiencing difficult economic circumstances, either because of a general economic downturn or individual circumstances, may be unable to make interest payments on their fixed income securities when due, causing income from the security to be reduced. Additionally, issuers of fixed income securities may be unable to repay principal upon maturity of such securities, causing the value of the debt security to be reduced. Normally, fixed income securities with lower credit ratings will have higher yields than fixed income securities with the highest credit ratings, reflecting the relatively greater risk of fixed income securities with lower credit ratings.

Maturity Risk: Maturity risk is another factor that can affect the value of debt securities. In general, the longer the maturity of a debt obligation the higher its yield and the greater its sensitivity to changes in interest rates. Conversely, the shorter the maturity of a debt obligation the lower its yield, but the greater the price stability. A client's portfolio will be subject to greater maturity risk to the extent the client is invested in fixed income securities with longer maturities. This risk may be heightened given the current historically low interest rate environment and the potentially higher rates in the future.

Investment-Grade Debt Securities: Generally, debt securities are rated by national bond rating agencies. Securities rated BBB by S&P or Fitch or Baa by Moody's are considered investment-grade securities, but are somewhat riskier than more highly rated investment-grade obligations (those rated A or better by S&P or Fitch and Aa or better by Moody's) because they are regarded as having only an adequate capacity to pay principal and interest, are considered to lack outstanding investment characteristics, and may be speculative. Such investment-grade securities will be subject to higher credit risk and may be subject to greater fluctuations in value than higher-rated securities.

Non-Investment Grade Debt Securities: Fixed income securities rated below "BBB" and "Baa" by S&P or Fitch or Moody's, respectively, are considered non-investment grade debt securities (i.e., "high yield bonds" or "junk bonds") and speculative in nature, and are typically subject to greater risks with respect to the non-payment of interest and principal and greater market fluctuations than higher-rated fixed income securities. They are usually issued by companies without long track records of sales and earnings, or by companies with questionable credit strength. These fixed income securities are considered "below investment grade." The retail secondary market for these types of fixed income securities may be less liquid than that of higher-rated securities and adverse conditions could make it difficult at times to sell certain securities or could result in lower prices than those used in calculating the daily market value of the client's portfolio. These risks could possibly reduce the client's share prices of fixed income securities and in some cases even lower the income distributions. Unless otherwise specifically directed by the client in writing, the Advisor may purchase or recommend a purchase in fixed income securities any credit quality, maturity or yield.

Convertible Securities: The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The creditworthiness of the issuer and other factors may also affect the investment value of a convertible security. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security may be subject to redemption at the option of the issuer at a price established in the instrument governing the convertible security. If a convertible security held by the client is called for redemption, the client would be compelled to permit the issuer to redeem the security, unless it converted the security into the underlying common stock or sold it to a third party.

Thinly Traded and Illiquid Securities: Because thinly traded and illiquid securities do not have an active public trading market, one could be delayed in identifying purchasers or may be unable to identify



purchasers for the securities when it wants to sell them, or may have to sell the securities at prices lower than the recently reported sales prices for the securities and/or at prices less than the prices it originally paid for the securities. If any of the foregoing risks are realized, the client may suffer significant losses on his or her investments in thinly traded and illiquid securities.

“Thinly traded” securities share characteristics of both liquid and illiquid securities. Generally, a thinly traded security is a security that, although traded on a public market, has such a low level of interest among investors and/or a low volume of trading activity that there are typically wide spreads between bid and ask prices. The lack of a more active public market may make it difficult or even impossible to dispose of a thinly traded security at the desired time.

### **Tax Risks**

General Risks: The actual tax consequences of investments made by the Advisor on behalf of a client will vary depending upon an investor’s particular circumstances. Accordingly, it is not possible to provide a comprehensive description of the tax risks that could be material to a client. Instead, clients are urged to consult their own legal counsel and tax advisors regarding current or future tax risks. The Advisor will not seek a ruling from the United States Internal Revenue Service (the “IRS”) with respect to any tax issues affecting the client’s portfolio(s).

Each investor is urged to consult his or her own tax advisor with respect to the U.S. Federal, state, local and foreign income tax consequences of investments made by the Advisor on behalf of a client.

Although the Advisor makes every effort to preserve a client’s capital in each discretionary account and achieve real growth of wealth, investing in the stock market and bond market involves risk of loss that each client should be prepared to bear. Investing in foreign stock markets involves additional risks including political, economic and currency risks, and differences in accounting methods.

For information on the risks associated with an investment in the CM Fund, please see the prospectus of the CM Fund, which can be obtained by calling (800) 664-4888 or downloading a copy from [www.cmadvisorsfunds.com](http://www.cmadvisorsfunds.com).

### **Item 9 – 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 Advisor or the integrity of the Advisor’s management. The Advisor has no legal or disciplinary events to report.

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

### **10.A. Registration of Licensed Representatives**

The Advisor does not have management persons registered or with a pending registration as a registered representative of a broker/dealer.

### **10.B. Other Registrations**

The Advisor's management persons are not registered, nor do any management persons have an application pending to register, as a futures commission merchant, a commodity pool operator, a commodity trading advisor, or an associated person of the foregoing.

### **10.C. Material Relationships or Arrangements**

As discussed above, the Advisor serves as the investment advisor of the CM Fund, and in return for these services, the CM Fund pays the Advisor an annualized management fee of 0.5% of the CM Fund's net asset value, as more fully described in the CM Fund's prospectus. While the Advisor will not charge the client an investment management fee with respect to the amount the client has invested in the CM Fund, the client will pay the CM Fund its proportionate share of the CM Fund's fees, including the annualized management fee that the Advisor charges to the CM Fund. This creates a conflict of interest to the extent that the Advisor is incentivized to cause a client to invest in the CM Fund in order to receive a higher management fee from the CM Fund. To mitigate this conflict, the Advisor generally only recommends that or causes a client to invest in the CM Fund (or any future series of the CM Advisors Family of Funds) if the Advisor deems the investment suitable based on the client's investment objectives, risk tolerance, and chosen primary method of investment.

### **10.D. Recommendation of Other Investment Advisers**

The Advisor does not currently recommend or select other investment advisers for clients.

## **Item 11 – Code of Ethics**

### **11.A. Code of Ethics**

The Advisor has adopted a written code of ethics pursuant to SEC Rule 204A-1 (the "Code"), a copy of which is available to you upon request. The Advisor's Code has several goals. First, the Code is designed to assist the Advisor in complying with applicable laws and regulations governing its investment advisory business. Under the Investment Advisers Act of 1940 (the "Advisers Act"), the

Advisor owes fiduciary duties to its clients. Pursuant to these fiduciary duties, the Code requires its associated persons (i.e., managers, officers, and employees) to act with honesty, good faith, and fair dealing in working with clients.

In addition, the Code sets forth standards of business conduct for the Advisor's associated persons, which are designed to ensure that associated persons act in the best interests of clients and put the interests of its clients first, ahead of personal interests. In this regard, the Code prohibits an associated person from misappropriating an investment opportunity from a client for the associated person's personal benefit.

The Code also includes provisions relating to the prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things.

The Code provides for disciplinary action as appropriate for violations.

## **11. B. Recommendations of Securities and Material Financial Interests**

The Advisor will generally recommend and cause discretionary clients to invest in the CM Fund where the Advisor has deemed such product appropriate based on a client's goals, objectives, risk tolerance, and time horizon. As discussed above, the Advisor's recommendation of its own products and services creates a conflict of interest to the extent that the Advisor is incentivized to invest a client in its proprietary products rather than products which may have a lower cost or better performance. However, clients are under no obligation to invest in the Advisor's investment management strategies or the CM Fund, and clients have the right, at any time, to prohibit the Advisor from investing any of their managed assets in the CM Fund or any other proprietary product of the Advisor.

## **11.C. Personal Trading**

The Advisor's employees and persons associated with the Advisor may buy or sell securities identical to those recommended to customers for their personal accounts. For example, the Advisor has established, in its corporate name, various accounts for the purpose of on-going training and development of its analysts and portfolio managers (the "Training Accounts"). The primary goal of the Training Accounts is for the Advisor's team to continue to work on execution as well as new ideas and investment strategies. Training Accounts may also buy or sell securities identical to those recommended to clients and may buy and sell such securities on the same day as client accounts, or buy or sell different securities than those recommended to clients. All purchases and sales within Training Accounts are subject to the Code, except where the Training Accounts donate profits to a charitable organization, in which case some of the restrictions that would otherwise apply under the Code may not apply.

These personal trading activities represent a conflict of interest to the extent that they incentivize the Advisor and its associated persons to put their own interests ahead of those of the clients. To mitigate this conflict, the Advisor's associated persons are required to comply with the Code, which includes provisions to protect client interests when its associated persons invest in the same securities as those selected for or recommended to clients, with a goal of ensuring that personal securities transactions, activities, and interests of the Advisor's associated persons will not interfere with making and implementing decisions in the best interest of advisory clients. To this end, the Code requires that the Advisor continually monitor trading by the Company's associated persons. The Code also requires pre-clearance of many personal trading transactions. In addition, the Code has designated certain classes of securities as exempt transactions, based upon a determination that these would not materially interfere with the best interest of the Advisor's clients. Nonetheless, because the Code in some circumstances would permit the Advisor's associated persons to invest in the same securities as clients, there is a possibility that associated persons might benefit from market activity by a client in a security held by an employee.

#### **11.D. Timing of Personal Trading**

The Code restricts trading by the Advisor's associated persons in close proximity to client trading activity. For example, Code imposes the following blackout period restrictions on its access persons:

- (1) No access person may enter an order for his or her own account for the purchase or sale of a reportable security on a day during which any client account has a pending buy or sell order in the same reportable security until after the client's order is executed or withdrawn; and
- (2) No investment personnel may buy or sell a reportable security within 1 business day before or after an account of a client trades in the same reportable security unless the CCO determines that it is clear that, in view of the nature of the security and the market for such security, the order will not affect the price paid or received by the client.

The following are exemptions from the above blackout period restrictions:

- (1) A trader may include "discretionary managed access person accounts" (i.e., accounts for which the access person has given the Advisor discretionary investment authority) making a trade in the same reportable security on the same day through the same broker as a client account in broker-specific, bunched purchase or sell orders with client accounts if the trade is placed through the Advisor's trading desk as part of an bunch/block order consistent with the Advisor's "Guidelines and Procedures with Regard to the Bunching of Securities Transactions," a copy of which are attached to the Code.
- (2) If the Advisor completes purchase or sell orders for a security for client accounts pursuant to a given instruction by the Advisor's various portfolio managers, and the Chief Investment

Officer gives his or her approval (thus verifying that the Advisor does not at that time intend to purchase (in the case of a purchase order) or sell (in the case of a sell order) any more of the security for client accounts for that particular round or level of trading), then the Advisor may purchase (in the case of a purchase order) or sell (in the case of a sell order) the security for access person accounts. In some instances, trading of the same securities for access person accounts may occur on the same day as additional trading for client accounts because the Advisor cannot anticipate factors beyond its control such as allocations for client accounts that are comprised primarily of new accounts, or due to portfolio allocation adjustments needing to be made to existing client accounts given large deposits, withdrawals or the removal of trading restrictions to or from said accounts. Access person accounts will typically be traded late in the trading day thus giving time to ascertain if any client account requires the purchase or sale of the same security.

(3) Any access person may purchase and sell shares in the CM Fund.

There may also be infrequent situations beyond our control, such as, but not limited to, tender offers or forced conversions, in which all sales of securities must be made at the same time and price for clients' accounts and employees' accounts.

## **Item 12 – Brokerage Practices**

### **12.A. Selection of Broker/Dealers**

The Advisor primarily manages its investment advisory accounts on a discretionary basis. This means that clients authorize us to select which securities are bought or sold, when they are bought and sold, how much of any security is bought or sold, plus all other investment and portfolio management decisions that are to be made within the client's account.

The Advisor also offers non-discretionary advisory services to clients. Clients who choose a non-discretionary arrangement must be contacted prior to the execution of any trade in the account(s) under management. This may result in a delay in executing recommended trades, which could adversely affect the performance of the portfolio. This delay also normally means the affected account(s) will not be able to participate in block trades, a practice designed to enhance the execution quality, timing and/or cost for all accounts included in the block. In a non-discretionary arrangement, the client retains the responsibility for the final decision on all actions taken with respect to the portfolio.

If a client wishes to limit the Advisor's authority, the client must specify the limitations in writing. Clients may amend these restrictions, in writing, at any time. The Advisor generally asks each separately managed investment advisory client, regardless of whether such client receives

discretionary or non-discretionary services, to select a broker-dealer or to provide us with written authority to determine which broker-dealer to use as set forth in the investment advisory agreement.

### **Recommendation of Broker-Dealer**

Generally, for clients that come directly to the Advisor for its investment management services and/or its wealth management services, we recommend that they select and establish brokerage accounts with Fidelity Investments (“Fidelity”) or Charles Schwab & Co., Inc. (“Schwab”). These companies are registered broker-dealers, Member SIPC, and generally will maintain custody of clients’ assets. The Advisor is not affiliated with Fidelity or Schwab.

Client accounts custodied at Fidelity or Schwab are not generally charged a separate fee for custody of the assets. Instead, Fidelity and Schwab are generally compensated by account holders through commissions on a per transaction basis or via an asset-based fee that is calculated as a percentage of the account value either on a monthly or quarterly basis. The Advisor does NOT share or participate in the fees or revenues charged to clients by these firms, and the Advisor’s advisory and consulting fees are in addition to these brokerage fees mentioned above.

When given discretion to select the brokerage firm that will execute orders in client accounts, the Advisor seeks “best execution” for client trades, which is a combination of a number of factors, including, without limitation, quality of execution, services provided, and commission rates. Thus, the Advisor’s recommendation that clients maintain their assets in accounts at Fidelity or Schwab (or any other brokerages firm selected by the Advisor) is based in part on the benefit that the Advisor receives from the availability of services and products that are provided by these firms and not solely on the cost and quality of custody and brokerage services provided. This creates a conflict of interest to the extent that lower cost or better quality custody and brokerage services are available.

Fidelity and Schwab provide the Advisor with access to their institutional trading and custody services, which are typically not available to retail investors. These services generally are available to independent investment advisors on an unsolicited basis and are not otherwise contingent on the Advisor committing to Fidelity or Schwab any specific amount of business (i.e., assets in custody or trading). The services provided by these firms may include brokerage, custody, research, and access to the CM Advisors Family of Funds, and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

### **Discretionary Authority to Select Broker-Dealers and Best Execution Policy**

In the event a client authorizes the Advisor to select broker-dealers for the client’s account, the Advisor’s general guiding principle for brokerage determinations is to seek “best execution” for client trades, which is a combination of price and execution. To this end, the Advisor considers, among other things, security-specific issues, market conditions at the time orders are placed, as well as the

transactions that are being executed, and commissions being charged. In addition, brokerage may at times be allocated to firms that supply research, statistical data and other services when the terms of the transactions and the capabilities of different broker-dealers are consistent with the guidelines in Section 28 (e) of the Securities Exchange Act of 1934 (the “Exchange Act”), even though such broker-dealers may pay a commission on transactions in excess of the amount of commission another broker-dealer would have charged. Generally, the Advisor will trade on behalf of the client with the firm that maintains custody of the client’s account, except in situations where our experience or pre-trade analysis suggests that there may be an advantage to executing the trade with another broker-dealer (e.g., large block orders and large bunched orders). As noted above, the Advisor typically recommends that clients establish brokerage accounts with Fidelity or Schwab.

The Advisor will recommend that clients set up a prime brokerage agreement with their broker-dealer. Under a “prime brokerage” relationship, the Advisor may trade directly with the firm that maintains custody of the client’s account or with another broker-dealer. Should the Advisor elect to use another broker-dealer, the client will pay a transaction fee to the custodial firm in addition to the commission charged by the executing broker-dealer. The Advisor will use other brokers only when doing so is consistent with its duty of best execution.

### **Research and Soft Dollars**

The Advisor may place portfolio transactions with a broker-dealer with whom it has negotiated a commission that is in excess of the commission another broker or dealer would have charged for effecting that transaction if the Advisor determines in good faith that such amount of commission was reasonable in relation to the value of the brokerage and research, products, and services provided by such broker or dealer, viewed in terms of either that particular transaction or the overall responsibilities of the Advisor.

As noted above, Fidelity and Schwab make available to the Advisor other products and services. These products and services may benefit only a portion, and not all, of the Advisor’s clients. Some of these products and services assist the Advisor in managing and administering clients’ accounts. For example, the Advisor receives software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution and allocation of aggregated trade orders for multiple client accounts, provide research, pricing information and other market data, facilitate payment of the Advisor’s fees from its clients’ accounts, and assist with back-office functions, recordkeeping and client reporting.

Fidelity and Schwab also offer other services intended to help the Advisor manage and further develop its business. These services include:

- educational conferences and events;
- technology, compliance, legal and business consulting;

- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants and insurance providers.

These firms may provide some of these services themselves. In other cases, the firm will arrange for third-party vendors to provide the services to the Advisor. The firms may also discount or waive their fees for some of these services or pay all or a part of a third party's fees. These firms may also provide the Advisor with other benefits such as occasional business entertainment of our personnel.

Additional research, products and services provided may include:

- furnishing advice, either directly or through publications or writings, as to the value of securities, the advisability of purchasing or selling specific securities and the availability of securities, or purchasers or sellers of securities;
- furnishing seminars, information analyses and reports concerning issuers, industries, securities, trading, markets and methods, legislative developments, changes in accounting practices, economic factors and trends and portfolio strategy;
- access to research analysts, corporate management personnel, industry experts, economists and government officials;
- comparative performance evaluation and technical measurement services and quotation services;
- products and other services (such as third-party publications, reports and analyses, and computer and electronic access, equipment, software, information and accessories that deliver, process or otherwise utilize information, including the research described above) that assists the Advisor in carrying out its responsibilities; and
- online trading systems for executing trades.

The Advisor receives both proprietary research products and services (created or developed by a broker-dealer) and research products and services created by a third party. Research received from brokers or dealers is supplemental to the Advisor's own research efforts.

Currently, the above-described services that the Advisor receives are not soft dollar arrangements, but are part of the institutional platforms offered by custodians. However, the Advisor may enter into soft dollar arrangements in the future.

If the Advisor determines that any product or service provided by a broker or dealer has a mixed use, such that it (i) assists in the investment decision-making process or is incidental to effecting securities transactions and (ii) serves other functions, the Advisor may allocate the costs of such services or product accordingly. The portion of the product or service that the Advisor determines will assist it in the investment decision-making process may be paid for in brokerage dollars. The Advisor will make a good faith determination with respect to the portion of the services allocable to "research or brokerage services" using an appropriate methodology in its discretion.



The use of client commissions for research and other soft dollar benefits can create a conflict of interest between the client and the Advisor. The Advisor may receive a benefit from the research services and products that is not passed on to the client in the form of a direct monetary benefit. The Advisor could have an incentive to select or recommend a broker-dealer based on interest in receiving the research or other products or services, rather than on the clients' interest in receiving most favorable execution. Further, research services and products may be useful to the Advisor in providing investment advice to any of the clients it advises, including fixed income accounts. Likewise, information made available to the Advisor from brokerage firms effecting securities transactions for a client may be utilized on behalf of another client. Thus, there may be no correlation between the amount of brokerage commissions generated by a particular client and the indirect benefits received by that client. The use of research and other soft dollar benefits may reduce the out-of-pocket costs of research paid by the Advisor.

The use of soft dollar benefits may cause clients to pay commission rates higher than they would otherwise pay if they traded solely for execution purposes. All soft dollar arrangements are reviewed by the Advisor's Chief Compliance Officer to ensure compliance with Section 28(e) of the Securities Exchange Act and any other applicable rule or regulation.

The prospectus for the mutual funds managed by the Advisor sets forth the types of securities that may be bought or sold by the Advisor for these funds. The investment advisory agreements with these funds generally give the Advisor the authority to select the broker-dealers that will execute trades for the funds and allows the Advisor to use soft dollar arrangements consistent with the Sections 28(e) of the Securities Exchange Act.

### **Directed Brokerage**

As described above, the Advisor generally asks that a client select a broker-dealer from a list of recommended brokers, but if a client wishes to choose a different broker-dealer, the Advisor can normally accommodate the client's request. If clients direct the Advisor to use a particular broker-dealer for all trades, the Advisor will NOT have authority to negotiate commissions, obtain volume discounts, and that best execution may not be achieved, and we typically require the client to acknowledge these limitations in writing. In addition, directing brokerage may cost clients more money. For example, the Advisor may be unable to aggregate orders to reduce transaction costs for clients who have directed brokerage, or the directed brokerage client may receive less favorable prices.

In addition, ERISA generally prohibits directed brokerage arrangements when the goods or services purchased are not for the exclusive benefit of the Plan. Consequently, we may request that Plan sponsors who provide Plan brokerage provide us with a letter documenting that this arrangement is in compliance with ERISA.

The Advisor will recommend that clients set up a prime brokerage agreement with their broker-dealer. Under a 'prime brokerage' relationship, the Advisor may trade directly with the firm that maintains custody of the client's account or with another broker-dealer. Should the client direct the Advisor to use another broker-dealer, the client will pay a transaction fee to the custodial firm in addition to the commission charged by the executing broker-dealer.

### **Brokerage for Client Referrals**

There are times when a broker refers a separately managed client account to the Advisor. At present, the Advisor is set up to receive broker referrals from LPL, Wells Fargo, UBS, Dain Rausher, and Raymond James. This list is subject to change at any time. When broker referrals are received, the Advisor will typically recommend trading through the referring brokerage firm. The brokerage, custodian, and other fees charged by these firms may be more or less than those charged by the firms the Advisor typically uses for trading. It is up to the client to negotiate their brokerage fees with these firms. The Advisor does NOT pay a fee to any of these firms for these referrals. The Advisor's fees are in addition to the fees charged by these firms.

### **12.B. Trade Allocation and Aggregation of Orders**

The Advisor may, but will not be obligated to, enter trades as a block if possible and if advantageous to clients whose accounts have a need to buy or sell shares of the same security. However, the Advisor will only aggregate transactions when it believes that aggregation is consistent with its duty to seek best execution and the terms of the relevant investment advisory agreements. Allocations of aggregated orders will be done in a manner consistent with the Advisor's fiduciary duties with the goal of ensuring that all clients are treated fairly over time.

In situations where there is a limited investment opportunity or when an aggregate order is only partially filled, the Advisor will seek to allocate the investment opportunity or partially filled order on a basis deemed fair and equitable over time. In these situations, orders will generally be allocated in one of three ways (1) in accordance with each participating account's overall equity exposure (with the accounts with the lowest equity percentage receiving shares first for purchases and the accounts with the highest equity percentage selling shares first); (2) in accordance with each participating account's exposure for the particular security being purchased or sold (with the accounts with the lowest percentage position receiving shares first for purchases and the accounts with the highest percentage position selling shares first); or (3) on a pro rata basis based on the relative dollar value of each participating account's order. However, allocations may be made on a different basis for a number of reasons, including, but not limited, to a client's investment objectives, guidelines or restrictions, availability of cash, liquidity requirements, tax, regulatory or legal reasons, to avoid odd lots, or in cases in which such an allocation would result in a de minimis allocation.

The Advisor may include proprietary accounts in aggregated trades subject to its duty of seeking best execution and its Code of Ethics. The Advisor will not allocate investment opportunities or aggregated trades in such a way that their personal, proprietary or affiliated accounts receive more favorable treatment than their clients' accounts.

## **Item 13 – Review of Accounts**

### **13.A. Periodic Review of Accounts**

Depending on the arrangement with the client, portfolio managers are responsible for the day-to-day implementation of the client's investment strategy. This includes ensuring that the proper asset allocation is taking place, along with overseeing that accounts within each strategy are being traded in accordance to their stated investment strategy and objective, while at the same time adhering to any trading notes, restrictions, or limitations that have been placed onto various accounts.

Portfolio managers report directly to the Co-Chief Investment Officers. Portfolio managers typically review a summary of the client accounts and the overall investment strategy with one or more of the Chief Investment Officers on a regular basis.

Transaction activity for each account, group, and composite is typically reconciled each day by the Advisor's accounting department. Generally, the previous day's transactions are reconciled the following business day.

The relationship management team is responsible for monitoring all account activity to ensure that transactions made in the client's account(s) are consistent with the client's investment objectives, restrictions and limitations. At least annually, the Advisor's relationship managers attempt to proactively contact each investment management client to discuss and review their accounts. Discretionary managed portfolios are reviewed at least quarterly. For clients to whom the Advisor provides financial planning services, non-discretionary advisory services, and/or consulting services, reviews are conducted on an as-needed or agreed-upon basis.

Most client reviews are done by phone or in-person, while some reviews are conducted via email upon request or upon multiple unsuccessful attempts to have a phone or in-person review.

### **13.B. Non-Periodic Review of Accounts**

In addition to regular reviews, the Advisor's portfolio teams may review accounts based upon triggering events, such as a client meeting, new trading notes or restrictions, significant deposits or withdrawals, a change in the client's investment strategy, economic news, national or world events, or other similar factors.

### **13.C. Client Reports and Communication**

The Advisor generally sends discretionary clients (through the delivery method selected by the client in his or her investment advisory agreement) a quarterly report that includes a statement of management fees, portfolio holdings, summary of realized gains and losses, dividends, interest, and performance. In addition, discretionary clients who have selected the “Mutual Funds, ETFs, and Closed-End Funds” investment method also typically receive funds’ semi-annual reports, annual reports, and a letter from the Advisor.

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

### **14.A. Compensation from Non-Clients**

As noted above, we receive an economic benefit from Schwab and Fidelity in the form of the support products and services they make available to us. We benefit from these arrangements because, absent these arrangements, the cost of these services would be borne directly by us. The products and services provided by Schwab and Fidelity, how they benefit us, and the related conflicts of interest are described above under Item 12 - Brokerage Practices.

### **14.B. Referral Arrangements**

The Advisor compensates for client referrals in accordance with SEC Rule 206(4)-1. This arrangement is described in more detail below:

#### **Referrals from Unaffiliated Solicitor**

Consistent with Rule 206(4)-1 under the Advisers Act, the Advisor currently has and may enter into written solicitation agreements with unaffiliated investment advisers (the “Solicitors”), who refer potential clients to the Advisor in return for compensation from the Advisor. The Advisor has no authority or responsibility to approve or supervise any financial planning, investment advice, asset allocation advice, or any other services that the Solicitor may provide to the Solicitor’s clients. The Advisor may engage other unaffiliated persons as solicitors in the future.

This presents a potential conflict of interest since Solicitors have an incentive to recommend the Advisor as a result of the compensation it receives. The Advisor mitigates this risk by requiring each Solicitor to provide a prospective client with a copy of the Advisor’s Brochure and a separate disclosure statement that includes the following information:

- The solicitor’s name and relationship with the Advisor;
- The fact that the solicitor is being paid a referral the Advisor;
- The amount of the fee;

- The fee paid to the Solicitor is a portion of the investment management fees that is paid to the Advisor for investment management services, and is the same as the client would otherwise pay if a solicitor was not involved; and
- The client must acknowledge in writing this arrangement.

## Item 15 – Custody

The Advisor does not intend to have custody of client accounts. However, the Advisor is deemed to have “soft” custody of client accounts because the Advisor’s portfolio management fees are debited directly from client accounts.

All funds, securities, and other assets of each of our clients will be maintained in the name of the respective client and held for safekeeping by the qualified custodian selected by the client, such as a bank, broker-dealer, trust company, or financial institution. It is the custodian’s responsibility to provide clients with trade confirmations, tax forms, and at least quarterly account statements. In most cases, clients also have online access through their custodian’s website to view their account statements and activity.

The Advisor generally sends quarterly statements to discretionary clients in addition to the monthly statements clients receive from their custodians. The Advisor’s quarterly account statements typically include a statement of management fees, a summary of the year-to-date and inception performance stated in U.S. dollars and percentage terms, an appraisal of all account holdings, and a year-to-date summary of realized gains and losses as well as income from dividends and interest. Additional account reports are available upon request.

We urge clients to compare the Advisor’s statements with the account statements they receive from their custodian. Please note that account statements from your custodian may cover slightly different periods from the Advisor’s statements. Therefore, the market value of individual assets, your portfolio as a whole, and the summary of realized gains/losses and dividends/interest may differ between these documents.

## Item 16 – Investment Discretion

*For discretionary accounts*, the client’s investment advisory agreement gives the Advisor discretionary authority to select the identity and amount of securities to be bought or sold without discussing the transactions with the client in advance. This authority is generally derived from a limited power of attorney granting the Advisor discretionary authority to buy and sell securities on the client’s behalf that is imbedded in the investment advisory agreement between the Advisor and the client, as well as an acknowledgement that this agreement exists in the paperwork the client signs when linking the client’s brokerage/custodian account to the Advisor.

When managing the client's account, the Advisor observes the investment limitations and restrictions that have been communicated by the client to the Advisor. Once portfolio managers have made their daily buy and sell decisions for Advisor's investment strategies, they send execution instructions to the trading department. This execution is based on the individual investment strategies themselves, along with per account trading limitations and restrictions, if any, that is borne by each individual account. The trading department will use specific trade notes, various internal trading groups, along with strategies/ composites to execute and implement the portfolio manager's instructions.

***For non-discretionary accounts***, the client may also execute a limited power of attorney, which allows the Advisor to carry out trade recommendations and approved actions in the portfolio. However, in accordance with the Advisor's non-discretionary advisory agreement with the client, the Advisor does not implement trading recommendations or other actions in the account unless and until the client has approved the recommendation or action.

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

### **Proxy Voting Policies and Procedures**

The Advisor has adopted and implemented Proxy Voting Policies and Procedures that are designed to reasonably ensure that proxies are voted in the best interest of its clients, in accordance with its fiduciary duties and Rule 206(4)-6 under the Advisers Act.

The Advisor's investment advisory agreement enables clients to designate the Advisor with the authority to vote proxies for securities held within client accounts. However, clients are not required to designate the Advisor with this authority. This designation can be revoked at any time by the client upon client's written notice to the Advisor that the client wishes to receive proxy solicitations directly and to assume responsibility for voting proxies. At no time will the Advisor have the ability to accept direction from clients on a particular solicitation.

However, for Plans that are subject to ERISA rules (except for 401(K) Clients with participant-directed investments), the Advisor will be the default entity to vote proxies for this client account, subject to any investment policy adopted by the Plan, unless the Advisor receives, in writing, the name of another individual or party that has been designated by the ERISA Plan to vote proxies and thereby relieving the Advisor of this duty. In contrast, the Advisor generally does not vote proxies on behalf of 401(K) Clients with participant-directed investments.

Because the Advisor considers each proxy proposal and the related corporate circumstances independently, it may vote differently with respect to similar proposals from different companies. The quality and depth of management is a primary factor that the Advisor considers when investing in a company. As a result, the Advisor gives substantial weight to the recommendation of management in proxy matters. However, the Advisor will consider each proxy proposal on its merits and will not follow

management recommendations if the Advisor reasonably believes those recommendations are not in the best interest of its clients.

### **Conflicts of Interests**

The Advisor recognizes that under certain circumstances it may have a material conflict of interest in voting proxies on behalf of clients. Such circumstances may include situations where the Advisor or its officers, directors, or employees have or are seeking a client relationship with the issuer of the security that is subject of the proxy vote. In cases where the Advisor is aware of a conflict between the interests of the client(s) and the interests of the Advisor or an affiliated person of the Advisor (e.g., a portfolio holding is a client or an affiliate of a client of the Advisor), the Advisor will take the following steps:

- i. With respect to clients that are registered investment companies, the Advisor will notify the registered investment company's board of trustees of the conflict and will vote the client's shares in accordance with the instructions of the client's board of trustees; and
- ii. With respect to other clients, the Advisor will:
  - a. vote matters that are specifically covered by the Proxy Voting Policy (e.g., matters where the Advisor's vote is strictly in accordance with the Proxy Voting Policy and not in its discretion) in accordance with this Proxy Voting Policy; and
  - b. for other matters, engage an independent third party (e.g., a proxy voting service) to review issues and vote proxies based on its determination of what is in the best interest of the client(s). The Advisor will adopt the vote recommendation of the third-party proxy service provider if the Advisor reasonably believes that the recommendation appears to be in the best interest of our clients.

For each proxy vote, the Advisor maintains all related records as required by applicable law. Clients may obtain a copy of the Advisor's complete proxy voting policies and procedures upon request. A client who delegates voting authority to the Advisor may obtain a copy of the specific voting record for his or her account(s), by contacting the Advisor at (512) 329-0050.

### **Item 18 – Financial Information**

Because the Advisor does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, and currently does not have any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients, the Advisor has nothing to disclose under this Item 18.