



## Sandhill Investment Management

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### Form ADV, Part 2A – Brochure

Item 1 – Cover Page

March 28<sup>th</sup>, 2024

This Brochure provides information about the qualifications and business practices of Sandhill Investment Management (“Sandhill”, “firm”, or “Advisor”). If you have any questions about the contents of this Brochure, please contact us at (716) 852-0279 or [operations@sandhill-im.com](mailto:operations@sandhill-im.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Sandhill Investment Management is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

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

## **Item 2 – Material Changes**

Sandhill Investment Management has made the following material changes since our August 30<sup>th</sup>, 2023, update:

Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss has been updated to include municipal bonds.

There are no other material changes to report.

Pursuant to SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Ryan Myers, Chief Compliance Officer at (716) 852-0279 or [compliance@sandhill-im.com](mailto:compliance@sandhill-im.com). Our Brochure is also available on our web site [www.sandhill-im.com](http://www.sandhill-im.com) also free of charge.

Additional information about Sandhill is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with Sandhill who are registered, or are required to be registered, as investment adviser representatives of the firm.

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## **Item 4 – Advisory Business**

Sandhill Investment Management is an investment advisory firm established in 2002, in Buffalo, New York. Sandhill is registered with the Securities and Exchange Commission.

Edwin M. Johnston III is the firm's principal owner. Principal owners are any individuals and/or entities controlling 25% or more of the ownership of the firm.

### **Investment Advisory Services**

Sandhill Investment Management provides Investment Advisory services to private clients, institutions and corporations. The program will include the following:

- a. **Investor Profile** - The firm consults with the client to obtain detailed financial information and other pertinent data. After conversations with the client, the firm determines the appropriate investment guidelines, risk tolerance and other factors that will assist in ascertaining the investments to be made that are suitable for the account(s). An asset allocation model is chosen for the client.
- b. **Portfolio Management Selection** - Based on the client's asset allocation, the firm provides asset management of the client's capital. The firm diversifies and manages the client's portfolio. Although accounts may own many of the same securities, the firm manages the accounts on an individualized basis. Further restrictions and guidelines imposed by clients may affect the composition and performance of individual portfolios. As such, investment portfolios with the same asset allocation and investment objective may differ. Investment guidelines and restrictions must be provided to Sandhill in writing.
- c. **Performance Evaluation and Monitoring Services** - The custodian of the account will provide monthly and/or quarterly statements. The firm also will maintain account performance with Axys (performance accounting software from Advent) and may discuss account performance with the client from time to time.
- d. **Discretionary Authority** - The client will grant the firm discretionary authority to buy and sell securities.
- e. **Alternative Investments and Private Placements**- For certain assets, such as those invested in private, non-traded Real Estate Investment Trusts ("REITS"), or those managed by third parties who have a direct relationship with the Client, Sandhill provides ongoing advice and monitoring of the recommended securities in the account.

Note: The firm will occasionally accept a non-managed account at the client's request. These accounts are accepted as a customer courtesy and on an exception basis. These accounts are not actively managed; therefore, these accounts are not charged a management fee.

### **Retirement Plan Rollover Considerations**

When we provide investment advice to you regarding your retirement plan account or individual retirement account, we are fiduciaries within the meaning of Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and/or the Internal Revenue Code (the "Code"), as

applicable, which are laws governing retirement accounts. As a Fiduciary we adhere to Impartial Conduct Standards. These Standards require that we:

- Meet a professional standard of care when making investment recommendations (give prudent advice),
- Never put our financial interests ahead of yours when making recommendations (give loyal advice),
- Avoid misleading statements about conflicts of interest, fees, and investments,
- Follow policies and procedures designed to ensure that we give advice that is in your best interest,
- Charge no more than is reasonable for our services; and
- Give you basic information about conflicts of interest

When providing recommendations to retirement plan accounts involving rollover considerations, there are generally four options regarding an existing retirement plan account. An employee may use a combination of those options, such as; 1.) leave the funds in the former employer's plan, if permitted, 2.) roll over the funds to a new employer's plan, if one is available and rollovers are permitted, 3.) roll over to an Individual Retirement Account ("IRA"), or 4.) cash out the account value (which could, depending upon the individual's age, result in adverse tax consequences). If your designated Advisor recommends that you rollover your retirement plan assets into an account to be managed by our firm, such recommendation creates a conflict of interest insofar as we will earn an advisory fee on the rolled over assets. You are under no obligation to roll over retirement plan assets to an account managed by us.

### **Sub-Advisory Business**

Sandhill also provides third-party sub-advisory services for accounts managed by other Registered Investment Advisors ("Advisors") through individual relationships or via established relationships with separately managed account platform sponsors ("Program Sponsors"). Sub-advisory relationships are established via written contractual agreements between Sandhill and individual Advisors or Program Sponsors. Sandhill's Sub-Advisory Fee is negotiated with the individual Advisors or, in the case of an Advisor and advisor representative utilizing a separately managed account wrap-fee platform, the Program Sponsor. Fees may differ across Advisors and platforms.

The Advisors are responsible for determining individual clients' suitability and ascertaining their investment objectives. The Advisors receive authority to allocate a client account to third-party money managers in the Investment Advisor Agreement signed by the Client. As a sub-advisor, Sandhill is granted discretionary authority to manage the account according to the investment strategy(ies) selected by the Advisor. Sandhill and/or other third-party marketing firms provide Advisors and program sponsors with regular investment strategy performance updates and other marketing materials. Monthly and quarterly accounts statements are provided by the custodian.

Sandhill currently serves as a Sub-Advisor for the following separately managed account wrap-fee programs:

- Lockwood Advisors Solutions
- American Portfolios Advisors Solutions
- Benjamin F. Edwards ESM Advisory Program
- Medallion Wealth Advisors
- UBS Separately Managed Accounts Program

- Private Advisor Group
- Raymond James Outside Managed Program
- Charles Schwab
- LPL Manager Select/Manager Access Select

### **Unified Managed Account Program (UMA)**

Sandhill also participates in Unified Managed Account (UMA) programs. The "sponsors" of these programs currently include: Envestnet and Lockwood Advisor Solutions. The sponsors contract directly with their clients to perform various types of investment management services. Sandhill delivers "model" portfolios to the sponsors. As part of this UMA, the advisor typically obtains the necessary financial data from the client, assists the client in determining the suitability of the program, assists the client in setting an appropriate investment objective and assists the client in opening an account.

As of December 31<sup>st</sup>, 2023, Regulatory Assets Under Management:

	<u>Number of Accounts</u>	<u>Assets under Management</u>
Discretionary Accounts	3087	\$1,897,330,660
Non-discretionary Accounts	174	\$228,667,624
Total	3261	\$2,125,998,284

Sandhill Investment Management also provides non-discretionary advisory services for institutional retirement plans. The services provided will vary depending on the needs of the client. Such services may include (but are not limited to) recommendation of investment options and model portfolio allocations, conducting enrollment meetings to disseminate plan information and investment education to participants, assistance with written investment policy statements, and coordinating with plan service providers.

## **Item 5 – Fees and Compensation**

### **Investment Advisory Fees**

Sandhill offers investment advisory services for a percentage of assets under management per annum. The fee is payable in advance on a quarterly basis. The valuation of the account(s) will be based on the closing prices of the securities held in the portfolio(s) on the last day of the month prior to the quarterly billings. For account(s) that are opened in the middle of any billing cycle, an invoice for the "stub" period will be submitted to the client's custodian. For accounts that are "stub" billed, invoices are generally submitted to the custodian during the final month of the quarter in which the account is opened. Either party may terminate the advisory agreement at any time.

Standard Discretionary Investment Advisory Fee Schedule:

#### *Discretionary*

- Equity Only Accounts 1.00%
- Corporate Bond Only Accounts 0.65%

- Preferred Equity Only Accounts 0.75%
- Balanced Accounts 1.00%

\*\*\*In certain instances, fees may be negotiable based on account-size and total number of accounts, among other factors.

The client may terminate the Investment Advisory Agreement within five business days of its signing without penalty and a full refund will be provided. Thereafter, the client or the firm may terminate this agreement by notifying the other in writing and termination will become effective after 30 days of receipt of the notice. Fees paid in advance hereunder will be prorated to the date of termination specified in the notice of termination, and any unearned portion thereof will be refunded to the client. However, termination will not affect either the client's or the firm's responsibilities under this agreement for previously initiated transactions or for balances due in the account upon termination. Upon termination, the firm will have no further obligation to act or advise with respect to any account.

The client may grant the firm the authority to receive quarterly payments directly from the client's account held by an independent custodian. Accordingly, the client will provide, in writing, limited authorization to withdraw the contractually agreed upon fees from the account. The custodian of the account is advised in writing of the limitation on the firm's access to the account. The custodian will also send to the client a statement, at least quarterly, indicating all the amounts disbursed from the account including the amount of advisory fees paid directly to the firm.

Sandhill's investment advisory fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to Sandhill's fee, and Sandhill shall not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that the firm considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

### **Sub-Advisory Fees**

Sandhill's sub-advisory fees are negotiated with either individual Advisors or Program Sponsors. For wrap-fee accounts, Sandhill's sub-advisory fee is included in the total wrap-fee charged to the client accounts. Sandhill is paid its sub-advisory fees from the wrap-fee collected by Program Sponsors.

### **Unified Managed Account Program (UMA) Fees**

Sandhill receives a fee for providing our "model" portfolio to the Program Sponsors. Our fees are negotiated with either individual Advisors or Program Sponsors.

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

Sandhill does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

## **Item 7 – Types of Clients**

Sandhill provides portfolio management services to individuals, corporations or other business entities, pension and profit-sharing plans, trusts, estates, charitable institutions, foundations, endowments, Advisors and separately managed account wrap-fee programs.

Sandhill requires a minimum balance of \$250,000 to open an account although accounts of lesser size may be accepted.

Minimum account balances for sub-advised accounts are negotiated with Advisors or Program Sponsors.

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

The investment process at the firm is marked by fundamental research and discipline. The firm begins its due diligence process by looking for businesses that have superior operating models. The superior operating models create businesses that have structural economic advantage. Structural economic advantage will create businesses that have superior margin and free cash flow relative to other companies in the same industry. The higher free cash flow margin will give the company more capital to reinvest to grow its business.

Structural economic advantage comes from product superiority, quality superiority, process manufacturing that cannot be replicated, the breadth and scale of distribution systems, cost of production advantage, supply constraints, brand awareness, intellectual capital and patents, and management talent. These operating characteristics lead to pricing power and/or superior margin relative to competitors.

When going through the due diligence process, the firm takes a lot of time to understand every business that we might purchase. The firm believes that it is important to know what you own. The firm is very particular about the businesses that it will purchase for clients.

The research process is broken into seven steps:

### Information gathering and consumption

The firm reads 10-Ks and 10-Qs. The firm reads the quarterly earnings release. The firm's favorite piece of research material is the quarterly earnings call transcripts read a few days after the call. They are very revealing. The firm reads street research and related articles. The firm takes time to learn and understand the operating model of the company.

The firm then talks to the company's management. We believe that any company (to a degree) is a reflection of its CEO.

### Due diligence

With an established working knowledge of the company, the firm tears apart and tries to understand the company's operating model. Is this a good business? What is the quality of the products? Is the company



a low-cost, high-quality manufacturer? What are the company's distribution capabilities? Can the company scale further? Are the end markets large enough so that the company can grow well into the future?

### Assessing operating risk

With a good understanding of the company's operating model, the firm then tries to understand the operating risk associated with the company's operating model. What is the competition? Does the company have pricing power? Will the company be able to maintain and protect its gross and operating margins? Are the company's products subject to commoditization in the future? How talented is management? Does the company control the distribution of its products? What is the geographic reach of the company's distribution system?

After asking and answering these and other questions, we begin to define the operating risk of the company. As we move through the due diligence process, it is important to understand the operating risk that we are exposed to as owners of the company.

### The thesis for success

After going through the first three steps, the covering analyst must then make the thesis for success to the investment committee before purchase of the equity. The covering analyst must then define how and why the company will increase revenue, margin, and profit over time.

The covering analyst will only be able to make a persuasive thesis for success to the rest of the committee if he has thoroughly completed the first three steps of the process.

### Financial characteristics

The firm will only buy companies that have the following financial profiles:

- Strong free cash flow
- Conservative balance sheets.
- High return on invested capital.
- Healthy operating margins
- Significant recurring revenue

The firm finds that investing in companies with these financial characteristics reduces risk.

### Valuation

Valuation is the final step in the investment process. Valuation does not drive the purchase of a company; it is merely a condition of purchase. The decision to buy a company has already been made by the time the firm gets to the valuation process. The valuation process simply defines what price we are willing to pay.

The firm adheres to four strict valuation metrics to ensure that we are buying portfolio companies at an attractive price:

- Enterprise value divided by free cash flow
- Return on invested capital
- Net present value of free cash flows
- Net debt to free cash flows

### The Cycle

After completing the due diligence and checking that the equity can be purchased at an attractive valuation, Sandhill then gives final consideration to the investment in the context of the macroeconomic picture and where the industry the company participates are in the cycle. As a general rule, Sandhill invests capital when cycles are bottoming or in the first half of their upward trend.

### Conclusion

Sandhill focuses on purchasing equity in companies that have high quality, difficult to replicate assets that generate strong free cash flows and high returns on invested capital.

Sandhill may use multiple types of securities in managing client accounts, provided that such securities are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations. The following types of securities may be included in our client's accounts: equity securities (exchange-listed securities, securities traded over-the-counter, and foreign issues), corporate debt securities, commercial paper, certificates of deposit, municipal securities, mutual fund shares, United States government securities, and/or options contracts on securities.

### Alternative Investments

Alternative investments such as non-traded REITs are only offered to accredited investors. These investments have limited liquidity with no available market price and the underlying properties are valued infrequently. In addition, management practices differ markedly from publicly traded companies. Dividends and/or interest may be paid out of offering proceeds and borrowing if operating cash flow is not enough. When conducting due diligence on alternative investments, members of the Research Team typically participate in conference calls, on-site meetings and/or meetings in Sandhill's offices with a member of the investment's management team.

### Municipal Bonds

The Municipal Bond strategy adopts a disciplined investment approach, focusing on municipal bonds that offer tax-exempt income. This strategy is particularly suited for New York State residents seeking to optimize their tax situation. Our investment team conducts thorough due diligence, assessing the creditworthiness of issuers and the underlying fundamentals of each bond to ensure alignment with our capital preservation objective. Investing in municipal bonds involves risk, including interest rate risk, credit risk, and market risk. While the primary objective of the strategy is to provide tax-exempt income and preserve capital, it's important for investors to understand that all investments carry some level of risk, including the loss of principal. The credit quality of the bonds within the portfolio will vary, and changes in tax laws or the financial condition of the issuers can impact the portfolio's performance.

### Preferred Equities

Preferred equities, also known as preferred stocks or preferred shares, are a type of hybrid security that combines features of both stocks and bonds. They represent an ownership interest in a company and typically have a fixed dividend rate. These dividends are paid out before any dividends are distributed to common shareholders. As such, preferred shareholders have a higher claim on the company's assets and earnings compared to common shareholders. While preferred equities can offer attractive income opportunities for investors, they also carry certain risks. It is essential to understand these risks before investing in preferred equities.

## Risks considerations with investing

Investing in securities involves risk of loss that clients should be prepared to bear. Such risks include:

- **Market Risk:** The risk that the value of an investment will decline due to fluctuations in the overall market or economic conditions. Market risk affects almost all types of investments, such as stocks, bonds, and mutual funds.
- **Credit Risk:** The risk that a bond issuer or other borrower will default on their debt obligations, resulting in a loss to the investor. This risk is more relevant for fixed income investments like corporate and government bonds.
- **Interest Rate Risk:** The risk that changes in interest rates will negatively affect the value of an investment, particularly for fixed income investments like bonds. As interest rates rise, the value of existing bonds typically falls.
- **Inflation Risk:** The risk that the purchasing power of an investment will be eroded by rising prices over time. This risk affects fixed income investments, as their returns may not keep pace with inflation.
- **Liquidity Risk:** The risk that an investor may not be able to sell or convert an investment into cash quickly or at a fair price, potentially resulting in a loss. This risk is higher for investments in illiquid or thinly traded assets like certain stocks, bonds, or real estate.
- **Business Risk:** The risk that a company's performance will be negatively affected by factors such as poor management, competitive pressures, changes in the industry. Business risk affects individual stocks, as well as sector-specific funds and exchange-traded funds (ETFs) that focus on a particular industry or market segment.
- **Call Risk:** Some fixed income securities have call provisions, allowing the issuer to redeem the shares at a predetermined price after a certain date. If interest rates decline or the issuer's credit quality improves, the issuer may choose to call the security, forcing investors to sell their shares back to the issuer.
- **Concentration Risk:** The risk associated with a lack of diversification in an investment portfolio, which can lead to increased volatility and potential losses. Concentration risk can result from investing too heavily in a single asset, industry, or geographic region.
- **Currency Risk:** The risk that changes in exchange rates will negatively affect the value of an investment denominated in a foreign currency. This risk is more relevant for international investments or investments in foreign currency-denominated assets.
- **Political Risk:** The risk that changes in political, regulatory, or legal environments will negatively impact an investment. This risk is particularly relevant for international investments or investments in companies with significant exposure to specific countries or regions.
- **Reinvestment Risk:** The risk that an investor may not be able to reinvest the proceeds from a maturing investment (e.g., bond principal or interest payments) at the same or higher rate of return. This risk is particularly relevant for fixed income investments.
- **Tax Risk:** The risk that changes in tax laws or regulations will negatively affect the after-tax returns on an investment. This risk can affect various types of investments, including stocks, bonds, and mutual funds.
- **Timing Risk:** The risk that an investor enters or exits an investment at an inopportune time, potentially resulting in a loss or reduced return. Timing risk can affect all types of investments, as market fluctuations can be unpredictable.
- **Legal and Regulatory Risk:** The risk that changes in laws, regulations, or their enforcement could negatively impact an investment or the operations of a company or financial institution. This risk can affect various types of investments and may overlap with political risk.
- **Leverage Risk:** The risk associated with the use of borrowed funds or other financial instruments to increase potential investment returns. Leverage can magnify both gains and losses, making investments more volatile and increasing the risk of significant losses.

- **Volatility Risk:** The risk that an investment's value will fluctuate significantly over a short period, which can lead to increased uncertainty and potential losses. Volatility risk is more relevant for investments with higher price fluctuations, such as stocks and cryptocurrencies.

In addition, frequent trading of securities can affect investment performance particularly through increased brokerage and other transactions. Risk cannot be eliminated from the investment process but at Sandhill we never lose sight of protecting our client's capital. A few examples of how we work to mitigate investment risks include the purchase of high-quality assets with ongoing monitoring, buy limits, and asset allocation. Sandhill is a long-term investor. We purchase securities with the intention of holding them in a client's account for a year or longer. At times, we will need to sell a security within a year of purchase when appropriate (ex. valuation becomes extreme, quality of the company changes).

## **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 Sandhill or the integrity of Sandhill's management. Sandhill has no information applicable to this Item.

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

Sandhill is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons.

## **Item 11 – Code of Ethics**

Sandhill has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition of insider trading, restrictions on the acceptance of significant gifts, personal securities trading procedures, compliance with Federal Securities laws, and reporting of code violations, among other things. All supervised persons at Sandhill must acknowledge the terms of the Code of Ethics annually, or as amended.

The firm, related persons or related entities may buy or sell investment securities recommended to the firm's clients. No related persons may buy a security that is under consideration for purchase or sale. Records will be maintained of all securities bought or sold by the firm, related persons, or related entities. Such records will be available for inspection upon request.

If the security is put on the buy list, it is generally bought in a "block" transaction through an institutional trading desk for all clients that meet suitability requirements and have available cash. Included in that block may be orders for members of the firm. Members must have a signed advisory agreement and be a client of the firm to be included in the block transaction. All blocks are average priced and members of the firm who are clients pay the same ticket charges so that there is no execution or cost advantage for members who have client accounts with the firm.

The Firm maintains a Restricted List of securities which are securities being considered for purchase or sale for one or more of the firm's Composites. Access Persons are prohibited from trading securities on the Restricted List in any personal securities accounts. Securities may be removed from the Restricted List by a member of the Investment Research Team if they are no longer being considered for investment

or, if the security is purchased or sold from one of the firm's composites, after all trades in the appropriate client accounts have been executed. The investment team will alert Access Persons of additions and deletions from the Restricted List via email. The investment team will also maintain a current Restricted List in a format that can be easily viewed by all Access Persons within the firm. It is the responsibility of each Access Person to refer to the Restricted List prior to making any trades in their respective personal securities accounts.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of the firm will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of the firm's clients. In addition, the Code requires pre-clearance of some transactions, and restricts trading in close proximity to client trading activity as noted above. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between the firm and its clients.

To request a copy of the Company's Code of Ethics contact Ryan Myers at (716) 852-0279 or in writing at 40 Fountain Plaza, Suite 1300, Buffalo, NY 14202.

It is Sandhill's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. The firm will also not cross trade between client accounts. Principal transactions are generally defined as transactions where an advisor, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment advisor in relation to a transaction in which the investment advisor, or any person controlled by or under common control with the investment advisor, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an advisor is dually registered as a broker-dealer or has an affiliated broker-dealer.

**Privacy Policy** – Sandhill Investment Management is committed to protecting the confidentiality and security of your private information. This notice is provided to help you understand how we safeguard your privacy.

To properly service your account, we must obtain some nonpublic personal information about you. The types of information we may need to obtain fall into the following categories:

- Information that we receive from you verbally and/or on applications or other forms; such as, names, addresses, phone numbers, social security numbers, and investment objectives; and
- Information about your transactions with us.

Sandhill Investment Management maintains safeguards to comply with federal and state standards to guard each client's nonpublic personal information ("NPI"). Sandhill Investment Management does not share any NPI with any nonaffiliated third parties, except in the following circumstances:

- As necessary to provide the service that the client has requested or authorized, or to maintain and service the client's account;

- As required by regulatory authorities or law enforcement officials who have jurisdiction over Sandhill Investment Management, or as otherwise required by any applicable law; and
- To the extent reasonably necessary to prevent fraud and unauthorized transactions.

Access to your personal information is restricted to those employees that need to know that information to provide services to you. We maintain physical, electronic, and procedural safeguards to comply with federal standards to protect your personal information.

## **Item 12 – Brokerage Practices**

For discretionary accounts, the firm has authority to determine the type and amount of securities to be bought and sold, the broker-dealer to be used and the commission rates to be paid without obtaining specific client consent. This authority shall be established upon execution by the client of the power of attorney outlined in the advisory agreement.

Although the firm maintains discretion on these accounts, the firm must adhere to the client's investment objectives including any investment restrictions and/or asset allocation guidelines.

The firm's clients in certain situations may choose their own custodians and may choose to direct transactions for their advisory accounts to a specific broker(s). However, the firm may recommend certain broker-dealers. The value of products, research and services of any recommended firm will be taken into consideration in making the recommendation.

### **The custodian and brokers we use**

Sandhill does not maintain custody of your assets, although we may be deemed to have custody of your assets if you give us authority to withdraw assets from your account (see Item 15—Custody, below). Your assets must be maintained in an account at a “qualified custodian,” generally a broker-dealer or bank. We recommend that our clients use Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, as the qualified Custodian.

We are independently owned and operated and are not affiliated with Schwab. Schwab will hold your assets in a brokerage account and buy and sell securities when we instruct them to. While we recommend that you use Schwab as custodian/broker, you will decide whether to do so and will open your account with Schwab by entering into an account agreement directly with them. Conflicts of interest associated with this arrangement are described below as well as in Item 14 (Client referrals and other compensation). You should consider these conflicts of interest when selecting your custodian.

We do not open the account for you, although we may assist you in doing so. Even though your account is maintained at Schwab, and we anticipate that most trades will be executed through Schwab, we can still use other brokers to execute trades for your account as described below (see “Your brokerage and custody costs”).

### **How we select brokers/custodians**

We recommend Schwab, a custodian/broker, to hold your assets and execute transactions. When considering whether the terms that Schwab provides are, overall, most advantageous to you when compared with other available providers and their services, we take into account a wide range of factors, including:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETFs], etc.)
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Reputation, financial strength, security and stability
- Prior service to us and our clients
- Services delivered or paid for by Schwab
- Availability of other products and services that benefit us, as discussed below (see “Products and services available to us from Schwab”)

### **Your brokerage and custody costs**

For our clients’ accounts that Schwab maintains, Schwab generally does not charge you separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account. Certain trades (for example, mutual funds and ETFs) do not incur Schwab commissions or transaction fees. Schwab is also compensated by earning interest on the uninvested cash in your account in Schwab’s Cash Features Program. In addition to commissions, Schwab charges you a flat dollar amount as a “prime broker” or “trade away” fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Schwab execute most trades for your account. We are not required to select the broker or dealer that charges the lowest transaction cost, even if that broker provides execution quality comparable to other brokers or dealers. Although we are not required to execute all trades through Schwab, we have determined that having Schwab execute most trades is consistent with our duty to seek “best execution” of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see “How we select brokers/custodians”). By using another broker or dealer you may pay lower transaction costs.

### **Products and services available to us from Schwab**

Schwab Advisor Services™ is Schwab’s business serving independent investment advisory firms like us. They provide us and our clients with access to their institutional brokerage services (trading, custody, reporting, and related services), many of which are not typically available to Schwab retail customers. However, certain retail investors may be able to get institutional brokerage services from Schwab without going through us. Schwab also makes available various support services. Some of those services help us manage or administer our clients’ accounts, while others help us manage and grow our business. Schwab’s support services are generally available on an unsolicited basis (we don’t have to request them) and at no charge to us. Following is a more detailed description of Schwab’s support services:

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

**Services that do not directly benefit you.** Schwab also makes available to us other products and services that benefit us but do not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts and operating our firm. They include investment research, both Schwab's own and that of third parties. We use this research to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

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

**Services that generally benefit only us.** Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology and business needs
- Consulting on legal and compliance related needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers
- Marketing consulting and support
- Recruiting and custodial search consulting

Schwab provides some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab also discounts or waives its fees for some of these services or pays all or a part of a third party's fees. If you did not maintain your account with Schwab, we would be required to pay for those services from our own resources.

### **Our interest in Schwab's services**

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services. Schwab has also agreed to pay for certain technology, research, marketing, and compliance consulting products and services on our behalf once the value of our clients' assets in accounts at Schwab reaches certain thresholds. The fact that we receive these benefits from Schwab is an incentive for us to recommend the use of Schwab rather than making such a decision based exclusively on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a conflict of interest. We believe, however, that taken in the aggregate our recommendation of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services (see "How we select brokers/ custodians") and not Schwab's services that benefit only us.

### **Research and Soft Dollars**

Brokerage transactions may be directed to certain broker-dealers in return for investment research products and services which assist the firm in its investment decision-making process. These arrangements are often called soft dollar arrangements. Such products and services may include, but are not limited to, research reports, discussions with research analysts and corporate executives, seminars or conferences, financial and economic publications that are not targeted to a wide audience, market research, and market data. The research products and services may include both products and services created by such broker and products and services created by a third party.

When we use brokerage commissions (or markups or markdowns) to obtain research or other products or services, the firm receives a benefit because we do not have to produce or pay for the research, products



or services. This creates an incentive to select or recommend a broker-dealer based on our interest in receiving the research or other products or services, rather than on our clients' interest in receiving most favorable execution. Clients may pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits.

These products and services are used to service all of our clients' accounts, not just the accounts that pay for the services. Soft dollar benefits are not proportionally allocated to any of the accounts that may generate a portion of the soft dollar benefits.

The firm reviews its soft dollar arrangements on at least an annual basis. The firm will make a good faith determination that the amount of commissions allocated to the broker is reasonable in relation to the value of the brokerage and research services provided by the broker.

### **Directed Brokerage**

Sandhill utilizes several different custodians to service advisory clients and sub-advised clients. Clients at different custodians may pay different execution prices for the same security. In order to ensure fair practice across directed trading or UMA model delivery platforms, our firm generally initiates random trade rotation across applicable platforms.

Where the firm believes that we can cause trades to be affected more efficiently for our clients, we may attempt to trade away from the designated broker-dealer, whether directed or non-directed. A trade away is one in which we place the order for a transaction for one or more client accounts with a broker ("Step-out Broker"), other than the broker that the client has directed us to utilize. The Step-out Broker reports a net price, which could include a commission, markup, or spreads paid to market makers for execution which will be borne by the client for which the trade was being executed.

Where the use of specific brokers is requested by a client, the client will be required to make such appointment on a form which will become an attachment to the investment advisory agreement. Advisor may not be authorized under those circumstances to negotiate commissions and may not be able to obtain volume discounts or best execution. A disparity in commission charges may exist between the commissions charged to clients who direct Advisor to use a particular broker-dealer and other clients who do not direct Advisor to use a particular broker-dealer.

The aggregation or blocking of client transactions allows an advisor to execute transactions in a more timely, equitable, and efficient manner. It is the policy of the firm to aggregate client transactions where possible. Sandhill prohibits any allocation of trades in a manner that the firm's proprietary accounts, affiliated accounts, or any particular clients receive more favorable treatment than other client accounts. Clients that meet suitability requirements and have available cash should be included in the block. If the trader is unable to fill the entire block order, then the partially filled block will be allocated in a manner in which no client or group of clients receive a more favorable treatment than other client account. (e.g., a partial purchase would be allocated to the accounts with the most available cash or pro-rata).

## **Item 13 – Review of Accounts**

Accounts are managed and reviewed by their individual advisors. Clients instruct advisors to adhere to asset allocation guidelines and to purchase equities and fixed income that are appropriate for the account. Advisors will perform ongoing reviews as they receive information, which contains one of the following elements:

- Information which would affect the holdings;
- when additional funds for investment are received;
- when new investment opportunities arise; and
- when funds are withdrawn.

Sandhill performs daily reviews of all prior day transactions. Trade review is supervised by the Chief Compliance Officer.

The firm will periodically review account objectives, asset allocation, account holdings, and performance, among other things, with a client. On occasion, a written report will be prepared to accompany the account review.

All clients will receive a confirmation of every trade and quarterly statements which outline the clients' current position, security cost basis, and current market value. Clients will receive monthly account statements only if a qualifying activity occurs. The custodian will be responsible for sending periodic statements to the client. At a minimum, statements will be sent quarterly. The custodian will be responsible for sending the client and the firm confirmations of purchase and sale transactions in client's account. Refer to Item 15 for more information regarding custody.

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

### **Promoters**

The firm may enter into written agreements with affiliated or unaffiliated individual(s) or organizations who may receive compensation for soliciting and/or referring clients for the firm. These agreements are governed by the amended Rule 206(4)-1 (Marketing Rule) of the Investment Advisers Act of 1940. All such referral fees paid by Sandhill shall be paid solely from our advisory fee. For clients who are introduced to us by an unaffiliated promoter, the client is given, prior to or at the time of solicitation, disclosures addressing any material conflicts resulting from Sandhill's relationship with the promoter.

### **Other Compensation**

We receive an economic benefit from Schwab in the form of the support products and services it makes available to us and other independent investment advisors whose clients maintain their accounts at Schwab. In addition, Schwab has also agreed to pay for certain products and services for which we would otherwise have to pay once the value of our clients' assets in accounts at Schwab reaches a certain size. You do not pay more for assets maintained at Schwab as a result of these arrangements. However, we benefit from the arrangement because the cost of these services would otherwise be borne directly by us. You should consider these conflicts of interest when selecting a custodian. The products and services provided by Schwab, how they benefit us, and the related conflicts of interest are described above (see Item 12—Brokerage Practices).

## **Item 15 – Custody**

Sandhill does not accept physical custody of client funds or securities. We may directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your account(s) causes our firm to exercise limited custody over your funds or securities, however, the custodian of the account will hold all customer assets.

The SEC issued a no-action letter (“Letter”) with respect to the Rule 206(4)-2 (“Custody Rule”) under the Investment Advisers Act of 1940 (“Advisers Act”). The letter provided guidance on the Custody Rule as well as clarified that an advisor who has the power to disburse client funds to a third party under a standing letter of instruction (“SLOA”) is deemed to have custody. Our firm has adopted the following safeguards in conjunction with our custodian:

- The client provides an instruction to the qualified custodian, in writing, that includes the client’s signature, the third party’s name, and either the third party’s address or the third party’s account number at a custodian to which the transfer should be directed.
- The client authorizes the investment advisor, in writing, either on the qualified custodian’s form or separately, to direct transfers to the third party either on a specified schedule or from time to time.
- The client’s qualified custodian performs appropriate verification of the instruction, such as a signature review or other method to verify the client’s authorization, and provides a transfer of funds notice to the client promptly after each transfer.
- The client has the ability to terminate or change the instruction to the client’s qualified custodian.
- The investment advisor has no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the client’s instruction.
- The investment advisor maintains records showing that the third party is not a related party of the investment advisor or located at the same address as the investment advisor.
- The client’s qualified custodian sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.

All clients will receive a confirmation of every trade and quarterly statements which outline the clients' current position, security cost basis, and current market value. Clients will receive monthly account statements only if a qualifying activity occurs. The custodian will be responsible for sending periodic statements to the client. At a minimum, statements will be sent quarterly. The custodian will be responsible for sending the client and the firm confirmations of purchase and sale transactions in client's account. We also urge you to compare the account statements from your custodian with the periodic account portfolio reports you will receive from us.

## **Item 16 – Investment Discretion**

Sandhill usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, Sandhill observes the investment policies, limitations and restrictions of the clients it advises.

Investment guidelines and restrictions must be provided to Sandhill in writing.

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

As a matter of firm policy and practice, Sandhill does not generally retain authority and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in accounts managed by Sandhill. All proxy notices are forwarded directly to the client by the client's account custodians as has been indicated on the client's custodial account application.

Sandhill's current investment advisory agreements specifically transfer proxy voting responsibility to the client with one exception. Sandhill will vote proxies on behalf of ERISA client accounts in instances where the governing plan documents do not specifically preclude the investment manager from doing so. When voting ERISA plan securities, the firm will take responsibility for voting proxies consistent with the best economic interests of the clients. The firm maintains written policies and procedures as to handling the voting and reporting of client proxies. Sandhill's policy and practice includes the responsibility to receive and vote client proxies, when voting is determined to be in the best interest of the clients given the totality of the circumstances, monitor corporate actions, and disclose any potential conflicts of interest.

A copy of the Sandhill's Proxy Voting Policies and Procedures may be obtained by calling Sandhill's Chief Compliance Officer at (716) 852-0279 or by emailing your request to [compliance@sandhill-im.com](mailto:compliance@sandhill-im.com).

## **Item 18 – Financial Information**

Registered investment advisers are required in some cases to provide certain financial information and or disclosures about financial condition. For example, if the firm requires prepayment of fees six months or more in advance, has custody of client funds, or has a condition that is reasonably likely to impair its ability to meet its contractual commitments to its clients, it must provide financial information and make disclosures. The firm has no financial or operational conditions which trigger such additional reporting requirements.