



## **Disclosure Brochure**

*(Containing the information required in Part 2A of Form ADV)*

March 21, 2024

### **Towneley Capital Management, Inc.**

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This brochure provides information about the qualifications and business practices of Towneley Capital Management, Inc. ("Towneley"). If you have any questions about the contents of this brochure, please contact us at [info@towneley.com](mailto:info@towneley.com), or at the telephone number above.

As an investment advisor with more than \$100 million under management, Towneley is required by law to register with the SEC. SEC registration does not indicate or imply that Towneley possesses a particular level of skill or training. The information in this brochure has not been approved or verified by the Securities and Exchange Commission ("SEC") or by any state securities authority. Additional information about Towneley Capital Management, Inc. (CRD number 169863) is available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

*Please retain a copy of this brochure for your records.*

## Item 2 Material Changes

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Since the filing of our last annual updating amendment, dated March 13, 2023, we have the following material changes to report:

- Effective immediately, our fee schedule has changed. The new fee schedule will impact new clients. Existing clients will be notified individually of any fee changes affecting their accounts. Please see Item 5, *Fees and Compensation*, for details on the new fee schedule.
- Effective immediately, we charge a \$1,250 minimum quarterly fee to new client accounts with less than \$500,000 in assets. The minimum fee applies to private clients, nonprofits and other organizations. Existing client accounts are not affected by this change. No changes made for Qualified Retirement Plan Sponsors. See Item 5, *Fees and Compensation*.
- We removed required initial minimum account assets of \$2 million with a minimum annual fee of \$5,000 for individual clients, nonprofits and other organizations. No changes made for Qualified Retirement Plan Sponsors. See Item 5, *Fees and Compensation*.
- We no longer recommend or use TD Ameritrade for brokerage and custodial services. See amended Item 12, Brokerage Practices.

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## Item 4 Advisory Business

Towneley Capital Management, Inc. ("Towneley," "we," or "us") is an SEC-registered independent investment advisory firm. Wesley G. McCain, Founder and Chair Emeritus, founded Towneley in 1971. Towneley operates as a Delaware corporation. Majority ownership of the company is with the TCM Employee Stock Ownership Trust.

We offer investment counseling, asset management, financial planning, business consulting and fiduciary services on a fee-only basis to individuals, high net worth individuals, trusts, estates, pension and profit sharing plans, nonprofit and charitable organizations, corporations and other business entities ("you" or "client"). We do not sell insurance, annuities or other commission-based financial products.

Approximately 90% of our business is providing investment supervisory services and portfolio review and reporting services as described in Item No. 13: Review of Accounts, below. Approximately 10% of our business is furnishing investment advice through consultation and providing financial planning and consulting services. We do not sponsor or participate in any wrap fee programs.

### ***Investment Advisory Services to Individual Clients***

We tailor our advisory services to the individual needs of each client. We begin our investment advisory relationship by defining your goals and objectives. We become familiar with your investment history, tolerance for risk, time horizon, expected annual contributions and withdrawals and other important factors. We then recommend an asset allocation specifically suited to you.

Once we understand your individual needs and preferences, we use our proprietary models to construct your custom portfolio of no-load mutual funds and exchange traded funds. By carefully selecting a variety of domestic and international equity, fixed income, and specialty funds, we design a diversified portfolio aimed at furthering your goals with the least possible risk. For certain clients, we may also use individual bonds, including Treasury securities, in the fixed income segment of their portfolio.

When purchasing funds for your account, we may use cost averaging. By establishing equity and some fixed income positions over a period of months rather than all at once, we strive to achieve an average cost basis lower than the highest price paid. We will recommend a timetable for investing your portfolio based on the types of investments in your portfolio, our analysis of the markets and your preferences.

You may impose reasonable restrictions on the investments in your Towneley portfolio. For example, you may request that investments in a particular asset class, such as precious metals, be excluded from your portfolio and we will honor your request.

We require that our clients give us full discretion to instruct the custodian/broker-dealer to invest cash and to buy, sell and exchange securities in their accounts at any time. However, we never take physical possession of your funds or securities, nor do we have the authority to withdraw (with the exception of debiting fees) or transfer your funds without your express written consent. See Item No. 15: Custody, for more information about custody.

We encourage you to keep us informed of any changes in work, family, health or other life circumstances that might warrant a reassessment of your investment goals or portfolio allocation. We offer you the opportunity to meet with us annually or more often if you request. These meetings provide an excellent opportunity for you to inform us of changes in your life or your business, and other matters of importance to you.

### ***Investment Advisory Services to Charitable and Other Nonprofit Organizations***

We begin our investment advisory relationship by defining and quantifying your goals and objectives.

Our first step is to review your organization's investment policy statement. We work with your investment committee to help revise it, as appropriate. During this process, we talk with you to become familiar with your investment history, tolerance for risk, time horizon, possible projected annual cash flow and other important factors. We then recommend an asset allocation specifically suited to your institution. We manage your accounts in accordance with your investment policy statement. As your organization's needs and goals change and mature, we may recommend further revisions to your investment policies during our periodic meetings with the investment committee and/or board of directors.

Once we understand your organization's needs and preferences, we apply our expertise and proprietary models to construct a custom portfolio of no-load mutual funds, exchange traded funds or a combination of the two. We carefully select a variety of domestic and international equity, fixed income and specialty funds, while honoring any restrictions specified by your IPS. For certain clients, we may also use individual bonds, including Treasury securities, in the fixed income segment of their portfolio. The result is a portfolio aimed at furthering your goals with the least possible risk.

When purchasing funds for your account, we may use cost averaging. By establishing equity and some fixed income positions over a period of months rather than all at once, we strive to achieve an average cost basis lower than the highest price paid. We will recommend a timetable for investing your portfolio based on the types of investments in your portfolio, our analysis of the markets and your preferences.

You may impose reasonable restrictions on the investments in your Towneley portfolio. For example, you may request that investments in a particular asset class, such as precious metals, be excluded from your portfolio and we will honor your request.

We encourage you to keep us informed of any changes in your organization's circumstances that might warrant a reassessment of investment goals or objectives. We also schedule periodic client meetings, which provide an excellent opportunity for you to discuss with us any developments that may affect your asset allocation and the management of your portfolio.

The Fiduciary Edge™, our investment advisory and consulting solution for nonprofit institutions, includes several value-added services that help nonprofit board and committee members to discharge prudently their fiduciary duties. Our solution for nonprofit institutions helps board and investment committee members maintain best practices as investment stewards in compliance with the Uniform Prudent Management of Institutional Funds Act. The Fiduciary Edge™ program is included in Towneley's investment advisory fee for nonprofit institutions that are Towneley investment advisory clients, and may be offered on a stand-alone basis to other charitable nonprofit organizations for a flat or hourly fee.

### ***Investment Management Services to Trusts***

We collaborate with corporate and individual trustees to provide discretionary investment management services to charitable and other types of trusts. In addition to managing the trust portfolio, we provide custom reporting and assist trustee with cash flow management and distribution processing.

### ***Investment Advisory Services to Qualified Retirement Plan Sponsors***

#### **Retirement plan consulting**

We provide retirement plan consulting services to employer plan sponsors on a one-time or ongoing basis. Generally, such retirement plan consulting services consist of assisting employer plan sponsors in establishing, monitoring and reviewing their company's participant-directed retirement plan. As the

needs of the plan sponsor dictate, areas of consulting could include investment options, plan structure and vendor search assistance. With respect to these services, we acknowledge in our Investment Advisory Agreement for Qualified Plans that we are a fiduciary within the meaning of Section 3(21) of ERISA.

#### **Retirement plan asset management**

We provide retirement plan asset management services on an ongoing basis. Generally, such asset management services consist of selecting, monitoring, removing, and/or replacing the investment options under the plan, consistent with the objectives, written guidelines and/or investment objectives set forth in the written investment policy statement accepted and adopted by the client. As the needs of the plan sponsor dictate, areas of management could include plan investment options, asset allocation, plan structure, and vendor search assistance. With respect to these services, we acknowledge in our Investment Advisory Agreement for Qualified Plans that we are a fiduciary within the meaning of Section 3(38) of ERISA.

#### **Financial Planning Services**

In addition to investment counseling and management, we offer financial planning services to our individual clients and prospective clients. Our services include:

##### **Pre-retirement planning**

We help you determine whether your current retirement goals are attainable or may need some adjustment, suggest how much you should accumulate to retire when and as you would like, and where you should be saving your money, e.g. in an IRA, 401(k) and/or a taxable account.

##### **Post-retirement distribution planning**

When you are ready to retire, and periodically during your retirement years, we help you determine how much you can withdraw from your invested assets without outliving your money.

##### **Spending and budget analysis**

We evaluate your income and expenditures and provide you with an analysis that includes our suggestions for reducing spending and increasing savings. Although we do not provide specific tax advice, our analysis may include suggestions that can help reduce your taxes. If appropriate, we can also evaluate your mortgage or other outstanding loans and help you determine if you might benefit from refinancing or from discharging those debts sooner than scheduled.

##### **College cost analysis and planning**

We estimate how much you should save for future college expenses depending on which college you ask us to target, and other variables. We can also recommend the best type of account to hold your college savings and help you determine the appropriate asset allocation for that account.

##### **Business consulting**

Under certain circumstances we may offer business and financial consulting services to small businesses. The services provided are tailored for specific client situations.

##### **Rollover Recommendations**

Effective December 20, 2021 (or such later date as the US Department of Labor ("DOL") Field Assistance Bulletin 2018-02 ceases to be in effect), for purposes of complying with the DOL's Prohibited Transaction Exemption 2020-02 ("PTE 2020-02") where applicable, we are providing the following acknowledgment to you.

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 and/or the Internal Revenue Code, as applicable, which are laws governing retirement accounts. The way we make money creates some conflicts with your interests, so we operate under a special rule that requires us to act in your best interest and not put our interest ahead of yours. Under this special rule's provisions, we must:

- 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.

We benefit financially from the rollover of your assets from a retirement account to an account that we manage or provide investment advice, because the assets increase our assets under management and, in turn, our advisory fees. As a fiduciary, we only recommend a rollover when we believe it is in your best interest.

### ***Assets under Management***

As of December 31, 2023, we provide continuous management services for \$882,417,396 in client assets on a discretionary basis.

## **Item 5 Fees and Compensation**

Towneley offers all of its services on a fee-only basis, which may include hourly and/or fixed fees, as well as fees based upon assets under management. Our compensation comes solely from our clients; we do not receive any compensation from third parties. Neither Towneley, nor any of its supervised persons, officers or employees, accepts compensation or other incentives for the sale of securities, including asset-based sales charges or service fees from the sale of mutual funds.

### **Investment Advisory Fees for Private Clients**

Towneley's fee for discretionary investment advisory services is based on a percentage of your assets under our management. Our advisory fees are billed quarterly and paid in advance, usually by direct debit from your account which you agree to in writing. Towneley's portfolio management system calculates the quarterly fee as described below.

The quarterly advisory fee is calculated on the average daily balance of the assets in your account as of the most recently completed quarter or portion thereof. The average daily balance is determined by the sum of the end-of-day account value for every day the account had value during the billing period, divided by the number of days in the period the account had value. The following annual fee rate schedule is applied to the average daily balance and the resulting amount is divided by four to determine the fee for the upcoming quarter.

For accounts with an average daily balance up to \$2,000,000, the fee rate applied is 1.00%.

For accounts with an average daily balance exceeding \$2,000,000, additional fee rates are applied as follows:

- ❑ 0.80% of the portion of the average daily balance between \$2,000,000 and \$5,000,000.
- ❑ 0.60% of the portion of the average daily balance between \$5,000,000 and \$10,000,000.
- ❑ 0.40% of the portion of the average daily balance between \$10,000,000 and \$20,000,000.
- ❑ 0.30% of the portion of the average daily balance that exceeds \$20,000,000.

New private client accounts with an average daily balance below \$500,000 are charged a minimum quarterly fee of \$1,250. Our advisory fee is negotiable at our discretion.

### **Financial Planning and Business Consulting Fees**

At Towneley's discretion, Towneley may provide financial planning or business consulting services (including advice about investments and non-investment related matters) on a stand-alone, separate fee basis. Towneley's stand-alone financial planning and consulting fees are negotiable, but generally begin at \$1,000 on a flat fee basis, depending upon the level and scope of the services required, and the professional(s) rendering the service(s). At its discretion, Towneley may also provide hourly financial planning and/or consulting services. The hourly charge for these services will range from \$250 to \$500 depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s).

### **Investment Advisory Fees for Charitable and Other Nonprofit Organizations**

Towneley's annual fee for discretionary investment advisory services and the Fiduciary Edge™ program is based on a percentage of your assets under our management. Our fees are billed quarterly and paid in advance, usually by direct debit from your account which you agree to in writing. Towneley's portfolio management system calculates the quarterly fee as described below.

The quarterly advisory fee is calculated on the average daily balance of the assets in your account as of the most recently completed quarter or portion thereof. The average daily balance is determined by the sum of the end-of-day account value for every day the account had value during the billing period, divided by the number of days in the period the account had value. The following annual fee rate schedule is applied to the average daily balance and the resulting amount is divided by four to determine the fee for the upcoming quarter.

For accounts with an average daily balance up to \$2,000,000, the fee rate applied is 1.00%.

For accounts with an average daily balance exceeding \$2,000,000, additional fee rates are applied as follows:

- 0.80% of the portion of the average daily balance between \$2,000,000 and \$5,000,000.
- 0.60% of the portion of the average daily balance between \$5,000,000 and \$10,000,000.
- 0.40% of the portion of the average daily balance between \$10,000,000 and \$20,000,000.
- 0.30% of the portion of the average daily balance that exceeds \$20,000,000.

New charitable and nonprofit organization accounts with an average daily balance below \$500,000 are charged a minimum quarterly fee of \$1,250. Our advisory fee is negotiable at our discretion.

### **Fiduciary Edge™ Program Fees**

If deemed appropriate in our discretion, Towneley may offer its Fiduciary Edge™ program to charitable nonprofit corporations that are not our investment management clients. Towneley's fees for this program are negotiable, but generally begin at \$2,500 on a flat-fee basis, depending upon the level and scope of the services provided.

**Investment Management Fees for Trusts**

Towneley's annual fee for discretionary investment management of trust assets varies from 0.30% up to 1.00% of the total assets under management. Our advisory fee is negotiable at our discretion, depending on the nature and size of the trust, the needs of the trustees and beneficiaries, and other unique circumstances.

**Investment Advisory Fees to Qualified Retirement Plan Sponsors**

The fee-paying arrangement for retirement plan consulting and asset management services is determined on a case-by-case basis and is detailed in our Investment Advisory Agreement for Qualified Plans. The type and amount of fees charged to the plan sponsor are generally based on the size and complexity of the plan, the number of plan participants, the location of the participants, the estimated number of meetings required, and other factors that we may deem relevant. We charge an annualized fee of 0.05% to 1.00% of the plan's assets for retirement plan consulting and asset management services, subject to our minimum annual fee of \$5,000. In lieu of an asset-based fee, we may charge a fixed fee ranging from \$5,000 to \$100,000. An estimate of the total cost will be determined prior to the start of the advisory relationship.

**Other Fee Information**

We prefer that you authorize the custodian to deduct our advisory fees directly from your account(s), although you may elect instead to pay our fees by check. We do not accept payment of our fees by credit card. See Item No. 15: Custody for a list of the procedures we have in place to provide for the direct debiting of advisory fees from client accounts. We reserve the right to adjust our fee schedule, impose a minimum fee, or impose a minimum asset size for an account depending on, among other things, the size and type of account, our historical relationship with the client, our management of related accounts and account composition. As a result, some clients may pay lower fees for our services than are reflected in this Disclosure Brochure. In addition, lower fees for comparable services may be available from other investment advisors.

**Fund Expenses and Transaction Charges**

We offer four distinct investment management programs that incorporate mutual funds and exchange traded funds: our Multiple Fund Strategy ("MFS"), our Global Balanced Exchange Traded Fund Strategy (GBS), our Socially Responsible Strategy (SAS), and our Climate-Aware Strategy (CAS).

In addition to our advisory fees, clients invested in the MFS, SAS and CAS strategies will incur the underlying expenses of the no load mutual funds held in your portfolio. Mutual fund expenses include management fees (paid to the unaffiliated fund managers), 12b-1 fees (for distribution and advertising), administrative fees and any other asset-based costs incurred by the fund. The mutual fund expense ratio, normally expressed as a percentage, reflects the ratio of fund expenses to fund assets. Mutual fund expense ratios do not reflect sales loads, redemption fees, or transaction fees, if applicable. Although we attempt to avoid using funds that charge 12b-1 fees, our research analysts may occasionally determine that a particular fund is a good choice for client portfolios even though that fund charges a 12b-1 fee. We do not accept 12b-1 fees. In the event our research analysts select a fund that charges a 12b-1 fee, the fund company retains the fee. To discourage market timing, some of the funds we use may charge short-term redemption fees of up to 2% that apply to sales within 12 months of purchase. You pay redemption fees, wire fees and overnight check charges, when incurred. While we attempt to only use funds that do not include transactions fees, you are responsible for paying any open-end mutual fund trading costs incurred in your portfolio.

Clients invested in any of our strategies will also incur the underlying expenses of the exchange traded funds (ETF) and closed-end funds in your portfolio in addition to our advisory fees. ETF and closed-end fund expenses include management fees paid to the managers of the ETFs and closed-end funds

in your portfolio. A fund's expense ratio, normally expressed as a percentage, reflects the ratio of fund expenses to fund assets. ETF and closed-end fund expense ratios do not reflect transaction costs, if applicable. Because ETFs and closed-end fund shares trade like stocks, you may pay a transaction cost associated with each trade, called a "trade commission." In the event a trade commission is assessed, the custodian deducts the trade commission from each client's account at the time we place the trade. Clients pay the same trade commission whether their trades are aggregated with those of other clients or not. See the discussion of Trade Aggregation in Item No. 12: Brokerage Practices, below.

## **Item 6 Performance-Based Fees and Side-by-Side Management**

Neither we, nor any of our supervised persons, staff members or employees, receive performance-based fees based on a share of capital gains on or capital appreciation of client assets.

## **Item 7 Types of Clients**

We have the following types of clients: individuals, high net worth individuals, trusts, estates, pension and profit-sharing plans, nonprofit and charitable organizations, insurance companies, corporations and other business entities.

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

The primary investment strategies we use to implement our investment advice to our clients are long-term purchases (securities held at least one year) and short-term purchases (securities sold within one year). We do not use frequent trading (purchase and sale within 30 days) or market timing strategies. Investing in all types of securities involves risk of loss. You should be prepared to bear these risks. Your investment in any of our strategies may lose money over the short or long term.

### **Multiple Fund Strategy (MFS)**

We designed our MFS to be a complete, diversified global investment strategy appropriate for most investors. Our research analysts screen several thousand mutual funds and exchange traded funds using various criteria, including performance in both up and down markets, risk profile, volatility, fund manager tenure and experience and expense ratios and other fees. They then select approximately 18-25 funds from among those screened for inclusion in client portfolios. Analysts select each fund for its contribution to the portfolio in terms of market size, industry weightings, performance in up and down markets and geographic emphasis. Our research analysts attempt to select funds that have a low correlation to one another with the goal of generating higher total portfolio returns over the long term. Although our MFS works best for long-term investors, we can tailor the strategy to suit investors with shorter time horizons.

Mutual funds are sold with different share classes, which carry different cost structures. Each available share class is described in the mutual fund's prospectus. When we purchase, or recommend the purchase of, mutual funds for a client, we select the share class that is deemed to be in the client's best interest, taking into consideration cost, tax implications, and other factors. When the fund is available for purchase at net asset value, we will purchase, or recommend the purchase of, the fund at net asset value. We also review the mutual funds held in accounts that come under our management to determine whether a more beneficial share class is available, considering cost, tax implications, and the impact of contingent deferred sales charges.

The primary risk associated with an investment in the MFS is market risk. Market risk is the possibility that stock or bond prices overall will decline over short or even extended periods. Although helpful in reducing market risk, portfolio diversification cannot eliminate market risk.

### **Global Balanced Exchange Traded Fund Strategy (GBS)**

We designed our GBS to compliment an investor's existing portfolio, and thus this strategy may not be appropriate for all investors. Our investment process for our GBS is twofold. We invest fifty percent (50%) of the portfolio in broad market exchange traded funds, with a small portion in commodities. Commodities include currencies, precious metals, real estate and other commodities. The remaining 50% of the strategy we invest using our proprietary global asset allocation model. We assign asset category weights based on the relative value of each asset category worldwide.

The primary risks associated with an investment in the GBS are market risk (as defined above) and currency risk. Currency risk is the possibility that returns may be lower for Americans investing in foreign securities because of a rise in the value of the U.S. dollar against foreign currencies. Currency risk is the same as exchange rate risk.

### **Socially Responsible Strategy (SRS)**

We designed our SRS to be a standalone, diversified global investment strategy. The SRS is appropriate for investors looking to invest in socially responsible mutual funds and exchange traded funds. Initially, our research analysts screen several thousand funds and select only those that Morningstar identifies as sustainable investment funds. Additional screens are then applied using various criteria, including Morningstar's Sustainability score, performance in up-and-down markets, risk profile, fund manager tenure and experience, expense ratios and other fees. Our research analysts then select approximately 12-20 funds from among those screened for inclusion in the SRS. Analysts select each fund for its contribution to the portfolio in terms of credit quality, market size, sector and industry weightings, geographic emphasis, and other criteria. Funds are chosen for their sustainable characteristics and contributions to the total portfolio. In addition, our research analysts attempt to select funds that have a low correlation to one another to help reduce risk and increase total return over the long term. Although we designed the SRS for long-term investors, we can tailor the strategy to suit investors with shorter time horizons.

### **Climate-Aware Strategy (CAS)**

We designed our CAS to be a standalone, diversified global investment strategy. The CAS is appropriate for investors looking to invest in low-carbon and other "climate-aware" mutual funds and exchange traded funds. Initially, our research analysts screen several thousand funds and select only those that Morningstar identifies as sustainable investment funds. Additional screens are then applied using various criteria, including Morningstar's Carbon Risk score, performance in up-and-down markets, risk profile, volatility, fund manager tenure and experience, expense ratios, and other fees. Our research analysts then select approximately 14-22 funds from those screened for inclusion in the CAS. Funds are chosen for their sustainable characteristics and contributions to the total portfolio. In addition, our research analysts attempt to select funds that have a low correlation to one another to help reduce risk and increase total return over the long term. Although we designed the CAS for long-term investors, we can tailor the strategy to suit investors with shorter time horizons.

**ESG Investing:** Our Socially Responsible and Climate-Aware Strategies are examples of ESG Investing. ESG investing maintains a focus on Environmental, Social, and Governance issues. ESG investing may be referred to in many ways, such as sustainable investing, socially responsible investing, and impact investing. ESG practices can include, but are not limited to, strategies that select companies based on their stated commitment to one or more ESG factors; for example, companies with policies aimed at minimizing their negative impact on the environment, social issues, or companies that focus on governance principles and transparency. ESG practices may also entail

screening out companies in certain sectors or that, in the view of the investor, demonstrate poor management of ESG risks and opportunities or are involved in issues that are contrary to the investor's own principals.

"ESG Investing" is not defined in federal securities laws, may be subjective, and may be defined in different ways by different managers, advisers or investors. There is no SEC "rating" or "score" of ESG investments that could be applied across a broad range of companies, and while many different private ratings based on different ESG factors exist, they often differ significantly from each other. Different managers may weight environmental, social, and governance factors differently. Some ESG managers may consider data from third party providers which could include "scoring" and "rating" data compiled to help managers compare companies. Some of the data used to compile third party ESG scores and ratings may be subjective. Other data may be objective in principle but are not verified or reliable. Third-party scores also may consider or weight ESG criteria differently, meaning that companies can receive widely different scores from different third-party providers. A portfolio manager's ESG practices may significantly influence performance. Because securities may be included or excluded based on ESG factors rather than traditional fundamental analysis or other investment methodologies, the account's performance may differ (either higher or lower) from the overall market or comparable accounts that do not employ similar ESG practices. Some mutual funds or ETFs that consider ESG may have different expense ratios than other funds that do not consider ESG factors. Paying more in expenses will reduce the value of your investment over time.

### **Cash Management**

We use Schwab's FDIC-insured cash fund as the cash sweep vehicle for all client accounts held at Schwab. The Schwab cash fund is FDIC insured and pays a rate of return like that of a bank savings account. The Schwab cash fund is not a mutual fund; therefore, it does not pass its operating expenses on to fund participants. Unless you have a need for a higher cash balance, we aim to keep a minimum amount of cash in your portfolio. If you are taking regular withdrawals from your portfolio, or you have a short time horizon, we aim to maintain a cash balance sufficient to meet your short-term withdrawal needs. We include your cash balance in the total portfolio value upon which we calculate our advisory fees. See Item No. 5: Fees and Compensation for an explanation of how we calculate our fees.

### **Risk of Loss**

Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

When evaluating risk, financial loss may be viewed differently by each client and may depend on many different risks, each of which may affect the probability and magnitude of any potential losses. The following risks may not be all-inclusive, but should be considered carefully by a prospective client before retaining our services:

**Liquidity Risk:** The risk of being unable to sell your investment at a fair price at a given time due to high volatility or lack of active liquid markets. You may receive a lower price, or it may not be possible to sell the investment at all.

**Credit Risk:** Credit risk typically applies to debt investments such as corporate, municipal, and sovereign fixed income or bonds. A bond issuing entity can experience a credit event that could impair or erase the value of an issuer's securities held by a client.

***Inflation and Interest Rate Risk:*** Security prices and portfolio returns will likely vary in response to changes in inflation and interest rates. Inflation causes the value of future dollars to be worth less and may reduce the purchasing power of a client's future interest payments and principal. Inflation also generally leads to higher interest rates which may cause the value of many types of fixed income investments to decline.

***Horizon and Longevity Risk:*** The risk that your investment horizon is shortened because of an unforeseen event, for example, the loss of your job. This may force you to sell investments that you were expecting to hold for the long term. If you must sell at a time that the markets are down, you may lose money. Longevity Risk is the risk of outliving your savings. This risk is particularly relevant for people who are retired or are nearing retirement.

***Risks Associated with Mutual Funds and Exchange Traded Funds:*** Mutual funds and exchange traded funds ("ETF") are professionally managed collective investment systems that pool money from many investors and invest in stocks, bonds, short-term money market instruments, other mutual funds, other securities, or any combination thereof. The fund will have a manager that trades the fund's investments in accordance with the fund's investment objective. While mutual funds and ETFs generally provide diversification, risks can be significantly increased if the fund is concentrated in a particular sector of the market, primarily invests in small cap or speculative companies, uses leverage (i.e., borrows money) to a significant degree, or concentrates in a particular type of security (i.e., equities) rather than balancing the fund with different types of securities.

ETFs differ from mutual funds since they can be bought and sold throughout the day like stock and their price can fluctuate throughout the day. The returns on mutual funds and ETFs can be reduced by the costs to manage the funds. Also, while some mutual funds are "no load" and charge no fee to buy into, or sell out of, the fund, other types of mutual funds do charge such fees which can also reduce returns. Mutual funds can also be "closed end" or "open end". So-called "open end" mutual funds continue to allow in new investors indefinitely whereas "closed end" funds have a fixed number of shares to sell which can limit their availability to new investors.

ETFs may have tracking error risks. For example, the ETF investment adviser may not be able to cause the ETF's performance to match that of its Underlying Index or other benchmark, which may negatively affect the ETF's performance. In addition, an ETF may not have investment exposure to all of the securities included in its Underlying Index, or its weighting of investment exposure to such securities may vary from that of the Underlying Index. Some ETFs may invest in securities or financial instruments that are not included in the Underlying Index, but which are expected to yield similar performance.

### **Tax Considerations**

Our strategies and investments may have unique and significant tax implications. However, unless we specifically agree otherwise, and in writing, tax efficiency is not our primary consideration in the management of your assets. Regardless of your account size or any other factors, we strongly recommend that you consult with a tax professional regarding the investing of your assets.

Custodians and broker-dealers must report the cost basis of equities acquired in client accounts. Your custodian will default to the First-In First-Out ("FIFO") accounting method for calculating the cost basis of your investments. You are responsible for contacting your tax advisor to determine if this accounting method is the right choice for you. If your tax advisor believes another accounting method is more advantageous, provide written notice to our firm immediately and we will alert your account custodian of your individually selected accounting method. Decisions about cost basis accounting methods will need to be made before trades settle, as the cost basis method cannot be changed after settlement.

## Item 9 Disciplinary Information

None.

## Item 10 Other Financial Industry Activities and Affiliations

We have not provided information on other financial industry activities and affiliations because we do not have any relationship or arrangement that is material to our advisory business or to our clients with any of the types of entities listed below.

1. broker-dealer, municipal securities dealer, or government securities dealer or broker;
2. investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund);
3. other investment adviser or financial planner;
4. futures commission merchant, commodity pool operator, or commodity trading adviser;
5. banking or thrift institution;
6. accountant or accounting firm;
7. lawyer or law firm;
8. insurance company or agency;
9. pension consultant;
10. real estate broker or dealer; and/or
11. sponsor or syndicator of limited partnerships.

## Item 11 Code of Ethics, Participation or Interest in Client Transactions

### ***Fiduciary Duty***

We based our Code on the principle that we owe a fiduciary duty to all of our clients to put their best interests ahead of our own. Accordingly, the Code prohibits our officers, affiliates, directors and employees from conducting their personal affairs, including their personal securities transactions, in such a manner as to serve their own personal interests at the expense of our clients. In addition, the Code requires that all employees submit periodic reports to our chief compliance officer ("CCO") evidencing their compliance with relevant provisions of the Code. For example, the Code requires that all employees obtain the CCO's approval before participating in initial public securities offerings or private offerings. In addition, all employees with access to client data must report their personal trading activity quarterly and their securities holdings annually.

### ***Personal Trading***

We have adopted a Code of Ethics ("Code") designed to comply with Rule 204A-1 under the Investment Advisers Act of 1940 ("Adviser's Act"). The Code establishes rules of conduct designed to ensure that our officers, affiliates, directors, and employees continue to meet the high ethical standards we have long maintained. Current clients may request a copy of our Code of Ethics at any time by calling us at (800) 545-4442.

### ***Restrictions on Personal Securities Transactions***

Any time the staff of an investment advisory firm holds personal investments, the potential for a conflict of interest occurs. Our Code of Ethics does not prohibit our officers, affiliates, directors, and employees from personally investing in the same Reportable Securities that we use in client accounts. However, our Code of Ethics requires our officers, directors and employees to pre-clear planned trades of Reportable Securities held in their own account that are the same Reportable Securities held in client accounts.

Every quarter, the CCO or designee reviews employees' personal trades and compares them to client trades in those same securities. Our CCO or designee may investigate employees' personal securities trading. Our officers, affiliates, directors, and employees are required to cooperate with such investigations and any monitoring or other review procedures employed by the compliance department.

We do not participate in principal, cross or agency-cross transactions for or with any client.

### ***Management of Affiliated Accounts***

Certain Towneley employees and/or members of their families are our clients. Whenever possible, our portfolio managers trade employee accounts on an equal basis with all client accounts having a similar strategy and objective. Our Code of Ethics requires our officers, affiliates, directors, and employees to put clients' interests ahead of their own interests, and to refrain from favoring one client over any other client.

## **Item 12 Brokerage Practices**

### ***Suggestion of Brokers***

We recommend that you establish an account with a custodian/brokerage firm with which we have an existing relationship. Such relationships may include benefits provided to our firm, including but not limited to, market information, and administrative services that help our firm manage your account(s).

We believe that recommended broker-dealers provide quality execution services for our clients at competitive prices. Price is not the sole factor we consider in evaluating best execution. We also consider the quality of the brokerage services provided by recommended broker-dealers, including the firm's reputation, execution capabilities, commission rates, and responsiveness to our clients and our firm. By using another broker or dealer you may incur lower transaction costs.

### ***Soft Dollar Credits***

We do not earn soft dollar credits on any mutual fund, ETF or any other trade. We do not have any arrangement with any broker-dealer or other third party to use research, research-related products or other services provided to us on a soft dollar commission basis, nor do we intend to enter into any such arrangements in the future.

### ***Broker-dealer Selection***

In selecting or recommending custodians/broker-dealers, we do not consider whether Towneley, or its officers, directors or employees, receive or may receive client referrals from the broker-dealer or a third party. We do consider service, cost, timeliness, accuracy, error resolution and reporting, among other factors. To place individual bond trades, we use one of several pre-approved broker-dealers to obtain the bonds that best fit within our ladder strategy at the lowest cost.

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

We seek to recommend a custodian/broker-dealer that will hold your assets and execute transactions. When considering whether the terms custodian/broker-dealer provides are most advantageous to you when compared with other available providers and their services, we consider 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.)
- 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

### ***Directed Brokerage***

In limited circumstances, and at our discretion, we may accept instructions from clients to use one or more particular brokers for the transactions in their accounts. If you choose to direct our firm to use a particular broker, you should understand that this likely will prevent our firm from aggregating trades with other client accounts or from effectively negotiating brokerage commissions on your behalf. Trades at brokerages other than Schwab will generally be placed by our firm on your behalf (and therefore executed) shortly after the execution of any aggregated block trades of the same security at Schwab. This practice may also prevent our firm from obtaining as favorable a net price and execution for you as for other clients on such trades. Thus, when directing brokerage business, you should consider whether the commission expenses, execution, clearance, and settlement capabilities that you will obtain through your broker are adequately favorable in comparison to those that we would otherwise obtain for you.

If the client seeks to direct brokerage for an account maintained on behalf of a retirement plan subject to the Employee Retirement Income Security Act of 1974 as amended ("ERISA") or similar government regulation, the client must monitor the services provided by the directed broker to assure that the plan continues to receive best execution and pays reasonable commissions. In addition, the client must make the following representations in writing:

- The directed broker is capable of providing best execution for the account's brokerage transactions;
- The commission rates that the client negotiated are reasonable in relation to the brokerage and other services received by the plan; and
- Any benefits provided by the directed broker are for the exclusive benefit of the plan.

As part of our brokerage and best execution practices, we have adopted and implemented written best execution practices and designated individuals who are responsible for monitoring our trading practices, gathering relevant information, periodically reviewing and evaluating the services provided by broker-dealers including the quality of trade execution, trading costs, overall brokerage relationships, and other factors, and documenting their reviews.

### **Your brokerage and trading costs**

For our clients' accounts, generally, the custodian does not charge you separately for custody services but is compensated by charging you commissions or other fees on some trades that it executes or that settle into your account. Certain trades (for example, exchange traded funds and many mutual funds) may not incur commissions or transaction fees. The custodian may also be compensated by earning interest on the uninvested cash in your cash sweep account.

We are not required to select the custodian or broker-dealer that charges the lowest transaction cost, even if it provides execution quality comparable to other custodians or broker-dealers. By using another custodian or broker-dealer you may pay lower transaction costs.

### ***Trade Aggregation and Allocation***

Towneley currently provides investment advice to several clients and manages client portfolios on a discretionary basis. Securities of the same mutual fund or exchange traded fund (ETF) may be purchased, held, or sold for clients of the Company. We aggregate ETF and closed-end fund trades whenever possible so that each security is traded only once for all accounts. We do not aggregate trades when trading for only one client's account at a time. All clients participating in an aggregated trade receive the same buy or sale price. Clients pay the same trade commission whether their trades are aggregated with those of other clients or not. Mutual fund trades cannot be aggregated.

Aggregated orders may include proprietary or related accounts. Such accounts are treated as client accounts and are neither given preferential nor inferior treatment versus other client accounts. Our policy prohibits any allocation of trades in a manner that our proprietary accounts, affiliated accounts, or any particular client, or group of clients, receive more favorable treatment than other client accounts. Generally, participating accounts will pay a fixed transaction cost regardless of the number of shares transacted. In certain cases, each participating account pays an average price per share for all transactions and pays a proportionate share of all transaction costs on any given day. In the event an order is only partially filled, the shares will be allocated to participating accounts in a fair and equitable manner, typically in proportion to the size of each client's order.

Each client that participates in an aggregated order will participate at the same average share price for all Company-placed transactions in that security on a given business day. A particular client may or may not participate in any specific transaction based on several factors including, but not limited to, the client's investment objectives, strategies, policies, restrictions, assets, and cash held.

Although the Company will generally seek to be consistent in its investment approach for similarly situated clients, the act of purchasing, selling, or holding a security for one client does not mean it will be purchased, sold, or held for another client.

See Item No. 5: Fees and Compensation, above, for an explanation of the trading costs/commissions applicable to client accounts.

## **Item 13 Review of Accounts**

### ***Monitoring***

We continually monitor performance, evaluating the funds in your portfolio to make sure that they continue to satisfy the requirements of our strategies. If a change occurs, we replace funds that no longer meet our investment criteria with funds that do. Our portfolio managers and research analysts review all accounts at least quarterly. In addition, our financial planners will review a client's financial plan if the client so requests, or whenever a client informs the planner or portfolio manager that variables relevant to the plan have changed.

We encourage our clients to keep us informed of any changes in work, family, health, or other life circumstances that might warrant a reassessment of investment goals. We also schedule annual client meetings. We strive to adhere to each client's asset allocation guidelines and to rebalance or reallocate client portfolios as needed to implement the investment strategy we have developed for the client or to adapt to changes in client needs, goals, risk tolerance or other factors.

### ***Reporting***

At least quarterly, we send all clients a written report containing the following information:

- The performance of the portfolio, performance of the fixed income, equity and commodities

components of the portfolio, and performance of several relevant indexes, all for the following periods: year-to-date, one year, three years, ten years, and since inception;

- The cost and current market value of individual portfolio assets through quarter's end; and
- Asset class and category breakdowns.

We may send additional reports to plan sponsors, institutional clients and to individual clients with multiple accounts.

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

We have programs in place to compensate our employees for referring clients to us. We pay each employee an incentive bonus equal to a percentage of all investment management fees paid to us for a period of three years by accounts the employee refers to us. We do not charge any of our clients higher fees in order to recoup these payments. Instead, we pay a portion of the advisory fees generated by each referred client account to the employee making the referral.

## **Item 15 Custody**

We never take physical possession of client assets, nor can we withdraw client assets other than as specifically authorized by the client for the payment of our advisory fees. We do not hold any client assets in our name or in bearer form. A third party independent qualified custodian holds all client cash and securities, which are registered directly in the client's name and under separate account(s) using the client's address as the address of record. The custodian sends client account statements, at least quarterly, to each of our clients for whom the custodian maintains funds or securities. Clients should carefully review the statements they receive from the custodian and compare the information in those statements to the information contained in the reports they receive from us. We urge our clients to contact us to discuss any questions they may have about information in either their custodial statements or their Towneley reports.

### ***Direct Debiting of Client Accounts for Payment of Advisory Fees***

We prefer that our clients authorize the custodian to deduct our advisory fees directly from their account(s), although clients may specifically request otherwise in writing. Under applicable SEC rules, we are deemed to have custody of the account assets of those clients who authorize us to deduct our fees directly from their accounts, and most of our clients have given us that authorization. We have the following procedures to provide for the direct debiting of client accounts for advisory fees:

The authority to deduct advisory fees from a client's account is included both in our investment advisory agreement, which is signed by the client and our president, and in the custodian's account application form, which is signed by the client.

We charge for our discretionary investment advisory services on a quarterly basis in advance. We provide each client with quarterly reports along with an invoice showing the amount of the fee for the upcoming quarter, the account value on which the fee is based, and the method by which the fee is calculated.

Each quarter, we send a report to the custodian identifying the amount of the fee it should debit from each client's account(s). The custodian sends each client a monthly account statement reflecting all transactions during that period. The quarterly deduction of advisory fees paid to us generally appears on the following monthly statements: January, April, July, and October. Occasionally the deduction occurs within the first few days of the following month. In those cases, the deduction would appear on the client's statement for the following month (February, May, August, and November).

The following disclosure appears on the quarterly reports to the client: "The information being provided was obtained via methods that are believed to be accurate; however, you should rely on the statements you receive from the account custodian. If there are any inconsistencies between the information provided here and your account statement you should rely on the statement and you should bring such inconsistencies to the attention of your portfolio manager immediately."

### ***Receipt and Return of Certain Client Checks***

Within three (3) business days, we will mail directly to the custodian for deposit to the client's account any check we receive from a client that is either 1) made payable to the custodian or 2) made payable to the client and endorsed by the client (such as a tax refund check). If a client sends us a check payable to Towneley that is not for payment of advisory fees, we will return that check to the client within three (3) business days.

### ***Trustee***

Persons associated with our firm may serve as trustees to certain accounts for which we also provide investment advisory services. In all cases, the persons associated with our firm have been appointed trustee because of a family or personal relationship with the trust grantor and/or beneficiary and not because of employment with our firm. Therefore, we are not deemed to have custody over the advisory accounts for which persons associated with our firm serve as trustee.

### ***Asset Transfer Authority***

Our firm or persons associated with our firm may effect asset transfers from a client's account based on the client's written authority to direct dispersal of funds to a designated third party or non-like-titled account on a periodic basis, until such authorization is revoked by the client. An adviser with authority to conduct such transfers is deemed to have access to, and thus custody of, the assets in the client account that is subject to the asset transfer instructions.

### ***Standing Letters of Authorization***

Our firm, or persons associated with our firm, may effect wire transfers from client accounts to one or more third parties designated, in writing, by the client without obtaining written client consent for each separate, individual transaction. Such written authorization is known as a Standing Letter of Authorization. An adviser with authority to conduct such third-party wire transfers has access to the client's assets, and therefore has limited custody of the client's assets in any related accounts.

However, we do not have to obtain a surprise annual audit, as we otherwise would be required to by reason of having custody, if we meet the following criteria:

1. You provide a written, signed instruction to the qualified custodian that includes the third party's name and address or account number at a custodian;
2. You authorize us in writing to direct transfers to the third party either on a specified schedule or from time to time;
3. Your qualified custodian verifies your authorization (e.g., signature review) and provides a transfer of funds notice to you promptly after each transfer;
4. You can terminate or change the instruction;
5. We have no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party;
6. We maintain records showing that the third party is not a related party to us nor located at the same address as us; and
7. Your qualified custodian sends you, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.

We hereby confirm that we meet the above criteria.

## **Item 16 Investment Discretion**

We require that our clients grant us full discretionary authority to manage their account(s) as we deem appropriate, which includes the authority to determine the securities to be bought and sold, the amount of such securities, the broker-dealer used to effect the transaction, and the commission rates to be paid, without obtaining specific client consent and subject only to those restrictions that we and the client have agreed upon in writing. This grant of authority is contained in both our investment advisory agreement, which is signed by the client and our president, and in the custodian's limited power of attorney form, which is signed by the client. The client must sign both documents before we will assume discretionary authority to manage the client's account.

Clients may impose reasonable restrictions on the investments in their Towneley portfolio. For example, a client may request that investments in a particular asset class, such as emerging market bonds, be excluded from the client's portfolio and we will honor that request.

## **Item 17 Voting Client Securities**

We do not vote proxies on behalf of your advisory accounts. At your request, we may offer you advice regarding corporate actions and the exercise of your proxy voting rights. If you own shares of applicable securities, you are responsible for exercising your right to vote as a shareholder.

In most cases, you will receive proxy materials directly from the account custodian. However, in the event we were to receive any written or electronic proxy materials, we would forward them directly to you by mail, unless you have authorized our firm to contact you by electronic mail, in which case we would forward any electronic solicitations to vote proxies to you via email.

## **Item 18 Financial Information**

We are registered with the SEC only, and not with any state securities authority. We do not ask or require any client to prepay more than \$500 in advisory fees six months or more in advance.

Therefore, the SEC does not require us to include a balance sheet with this brochure. We do not have any financial condition that impairs, or is likely to impair, our ability to meet our contractual commitments to our clients. We have never been the subject of a bankruptcy petition.

## **Item 19 Requirements for State-Registered Advisers**

We are a federally registered investment adviser; therefore, we are not required to respond to this item.

## **Item 20 Additional Information**

### ***Your Privacy***

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure.

We do not disclose any non-public personal information about you to any non-affiliated third parties, except as permitted by law. While servicing your account, we may share some information with our service providers, such as transfer agents, custodians, broker-dealers, accountants, consultants, and attorneys.

We restrict internal access to non-public personal information about you to our employees who need that information to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your non-public personal information and to ensure our integrity and confidentiality. We will not sell information about you or your accounts to anyone. We do not share your information unless it is required to process a transaction, at your request, or required by law.

You will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to you on an annual basis. Contact our main office at the telephone number on the cover page of this brochure if you have any questions regarding this policy.

If you decide to close your account(s) we will adhere to our privacy policies, which may be amended from time to time.

If we make any substantive changes in our privacy policy that would further permit or require disclosures of your private information, we will provide written notice to you. Where the change is based on permitted disclosures, you will be given an opportunity to direct us as to whether such disclosure is acceptable. Where the change is based on required disclosures, you will only receive written notice of the change. You may not opt out of the required disclosures.

If you have questions about our privacy policies contact our main office at the telephone number on the cover page of this brochure and ask to speak to the Chief Compliance Officer.

### ***Trade Errors***

In the event a trading error occurs in your account, our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account.

### ***Class Action Lawsuits***

We do not determine if securities held by you are the subject of a class action lawsuit or whether you are eligible to participate in class action settlements or litigation nor do we initiate or participate in litigation to recover damages on your behalf for injuries because of actions, misconduct, or negligence by issuers of securities held by you.