

# **Tectonic Advisors LLC**

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**November 1, 2019**

## **Form ADV Part 2A Brochure**

Tectonic Advisors LLC (hereinafter "Tectonic Advisors") is an investment adviser registered with the Securities and Exchange Commission (hereinafter "SEC"). An "investment adviser" means any person who, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing, or selling securities, or who, for compensation and as part of a regular business, issues or promulgates analyses or reports concerning securities. Registration with the SEC or any state securities authority does not imply a certain level of skill or training.

This brochure provides information about the qualifications and business practices of Tectonic Advisors LLC. If you have any questions about the contents of this brochure, please contact us at (713) 250-4200. 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.

Additional information about Tectonic Advisors LLC is available on the public disclosure website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Material Changes - Item 2**  
**Revised: November 1, 2019**

This section discusses any material changes to the Firm Brochure since the date of our 2019 annual update to the Brochure which was March 27, 2019, through the date of September 30, 2019.

Effective May 13, 2019, the former parent Tectonic Holdings LLC merged with and into Tectonic Financial Inc., resulting in the new parent company becoming Tectonic Financial Inc.

Effective November 1, 2019, Stephen Mangold was named Sanders Morris Harris and Tectonic Advisors Chief Compliance Officer, replacing Nancy Dixon interim Chief Compliance Officer.

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#### **Advisory Business - Item 4**

Tectonic Advisors LLC ("Tectonic Advisors") is a registered investment adviser based in Plano, Texas. We are a limited liability company formed under the laws of the State of Texas. We have been providing investment advisory services since 2006.

Tectonic Advisors LLC is owned by Tectonic Financial Inc. Arthur Haag Sherman (CRD#2813406) is the principal owner of Tectonic Financial Inc. Stephen Mangold (CRD# 2359974) is our Chief Compliance Officer.

#### **Assets Under Management**

As of December 31, 2018, Tectonic Advisors manages discretionary assets under management of \$1,268,777,015 and non-discretionary assets under management of \$6,030,694. We also provide non-discretionary and non-continuous advisory services on an additional \$461,828,890 in assets, making our total assets under advisement \$1,736,636,599.

#### **Portfolio Management**

Tectonic Advisors offers investment advisory services to individuals, banking institutions, corporations, trusts, and pension plans in three programs: (1) Separately Managed Account Program, (2) T-Bank Program, Advisor to Collective Investment Funds and (3) Model Portfolio Advisor Program.

#### **Separately Managed Account Program ("SMA Program")**

Tectonic Advisors offers discretionary portfolio management services to individuals, corporations, trusts and pension plans. Tectonic Advisors invests Client's assets in securities that it deems consistent with clients stated investment objectives and according to the Investment Policy Statement executed by the Client.

Tectonic Advisors offers portfolios largely, if not entirely, comprised of exchange-traded funds (ETFs) and other securities, in the SMA Program ("Tectonic portfolio"). Tectonic portfolio strategies range from a conservative Capital Preservation, to a more aggressive all US Equity, portfolio. Tectonic portfolios generally use a diversified asset allocation approach, with a proprietary dynamic process that re-balances the portfolios based on certain criteria with a goal of mitigating risk and providing a consistent return commensurate or better than the portfolio's benchmark.

Client assets in the Tectonic portfolios will be invested in exchange-traded funds (ETFs), index funds, exchange-traded notes (ETNs), master limited partnerships, mutual funds and from time to time client portfolios may include other securities (such as stocks, bonds and other securities).

Clients in consultation with Tectonic Advisors will execute an Investment Advisory Agreement and select a strategy that will be described within the Client's Investment Policy Statement. Minimum investments vary by strategy. Clients will pay an investment advisory fee to Tectonic Advisors as well as the expenses attributable to the ETF, index fund, ETN, mutual fund or other security as well as custodial and other costs (such as trading or administration costs). Client may impose reasonable restrictions on the management of their account subject to the approval of Tectonic Advisors.

Clients will be directed to utilize the custody and execution services of TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade"), or such other custodian as Tectonic Advisors may select and which is suitable for the client.

The minimum investment required to establish an SMA Program account is \$250,000. Tectonic Advisors may waive the minimum account size at its sole and absolute discretion.

Tectonic Advisors may provide customized allocations. Customized allocations may include the use of third-party Investment Managers. Clients are instructed to review the Form ADV Part 2A of each third-party Investment Manager recommended.

#### **T-Bank Program**

Tectonic Advisors offers discretionary advisory services to its affiliated bank, T Bank, N.A. (T Bank) for its Collective Investment Funds ("CIF"). These funds are used by qualified plans (i.e. 401K, etc.) and common trust funds for personal assets (i.e. individual, joint, etc). Investors in the T Bank funds are generally clients of affiliated advisory firm, Cain Watters & Associates, L.L.C. ("CWA") *See Financial Industry Activities and Affiliations for additional information regarding conflicts.* The funds may also include investors who are not clients of CWA.

#### **Sub Advisory Services**

Tectonic Advisors offers sub advisory services to Capital Management Group, Inc., the sub adviser to various mutual funds. Certain affiliates of Tectonic Advisors may recommend that clients invest in these mutual funds. In such cases, Tectonic Advisors will receive indirect compensation in the form of a percentage of the advisory fee charged by Capital Management Group, Inc. This situation creates a conflict of interest. Tectonic Advisors and its affiliated investment advisers uphold their fiduciary duty of good faith and fair dealing with their clients. In addition, Tectonic Advisors and its affiliates conduct due diligence reviews on all mutual funds recommended to clients to determine that all recommendations are in the best interest of the client without regard to the existing relationship between Tectonic Advisors and Capital Management Group, Inc.

#### **Model Portfolio Advisor Program**

Clients of third party advisors who wish to access Tectonic Advisors strategies do so through the Model Portfolio Advisor Program.

Tectonic Advisors provides its models through an agreement with Envestnet Asset Management, Inc. (Envestnet), as a Model Portfolio Advisor in the Private Wealth Manager program offered by Envestnet to investment advisers. Tectonic Advisors is engaged as a non-discretionary investment advisor to assist Envestnet in its management of assets of the program which are held in Envestnet Clients' accounts.

Private Wealth Management program client's accessing Tectonic Advisors models can be clients of affiliated advisory firm, Cain Watters & Associates (CWA) *See Financial Industry Activities and Affiliations for additional information regarding conflicts.*

Tectonic Advisors' models include third-party unaffiliated Investment Managers, ETFs, and mutual funds and individual securities (such as stocks and/or bonds). Each Investment Manager, ETF or mutual fund is included based upon their ability to fulfill a particular asset class allocation. To be included in a Tectonic Model, the Investment Manager or Fund must undergo a comprehensive qualitative and quantitative

analysis. Each strategy or fund is thoroughly evaluated, in areas such as performance, risk management, consistency of investment style, and investment team expertise.

The minimum investment in Tectonic Advisors models offered via Envestnet is \$25,000.

### **Due Diligence Provider**

Tectonic Advisors provides research and due diligence services to our affiliate, Cain Watters and Associates, L.L.C. ("CWA") related to certain investment programs CWA recommends to its clients. Currently these consist of a Pooled Investment Program (collective and common trust funds), Separately Managed Account Program (SMA), Multi-Manager Account Program (MMA), Unified Managed Account Program (UMA), and Participant Directed and Retirement Investment Program.

These services include the following but may vary depending upon the program:

- a. Asset allocation analysis;
- b. Research on investments and securities including alternative forms of investments (i.e. commodities or real estate, etc.);
- c. Due diligence research on investment, securities and asset management companies and managers;
- d. Periodic monitoring of investment, securities and asset management companies and managers;
- e. Assistance in selection of investment, securities and asset management companies and managers;
- f. Research on specific investments and securities in whatever form they may take;
- g. General research about investments, securities and asset allocation;
- h. Global investment services.

### **Fees and Compensation - Item 5**

Tectonic Advisors fees are negotiable.

#### **Separately Managed Account Program (SMA Program) Fees**

The Advisor's annual fee for investment management services provided in the SMA Program shall be based upon a percentage (%) of the market value of the assets under management. This annual fee shall be calculated by Tectonic Advisors and be prorated and paid quarterly, in arrears, based upon the market value of the Assets on the last business day of the billing quarter. The fee cannot be raised without prior written notification to the Client. Fees will be deducted directly from the client's account. Clients will provide authorization to deduct fees upon account opening and client may revoke this authorization with upon written notice to Custodian and Tectonic Advisors.

Our fees are 100 basis points or 1.0% annually. Investors accessing Tectonic Advisors strategies through the Model Portfolio Advisor Program may pay materially different fees for the same strategies.

In addition to Advisor's annual investment management fee, the Client shall also incur fees and expenses charged by mutual funds or exchange traded funds, third party advisory fees, and trading/custodial fees:

1. In addition to the Advisors annual fee, each mutual fund or ETF is subject to investment advisory, administrative, distribution, transfer agent, custodial, legal, audit and other customary fees and expenses related to investment in investment companies as set forth in the prospectuses of the funds. These fees and expenses are paid by the funds, but ultimately are borne by clients as fund shareholders and are in addition to the Advisors annual fee. The securities, including mutual funds and ETFs are available outside of Tectonic Advisors accounts with paying the Advisors annual fee.

2. In some cases, Tectonic Advisors may customize allocations that include third-party Investment Managers. Clients will generally execute separate investment advisory agreements with the third-party Investment Managers and each separate Manager may charge an advisory fee.

3. The Advisors annual fee does not cover certain costs or charges imposed by the custodian or other third parties, including brokerage commissions, mark-ups/mark-downs, odd-lot differentials, exchange fees, contingent redemption fees, and transfer taxes mandated by law. Other custodial charges may be assessed for special services elected by the clients, including electronic fund and wire transfer fees, certificate delivery fees and reorganization fees.

#### **T-Bank Program Fees**

The fees paid by T Bank to Tectonic Advisors related to providing investment advisory services are paid out of the 65 basis points trust fee charged by T Bank to T-Bank client accounts. The bank will pay a portion of this fee to Tectonic Advisors, and the qualified custodians engaged to provide services in the pooled investment program. Tectonic Advisors will receive 54 basis points for investment advisory services based upon the total value of the assets committed to the pooled investment program including cash allocation.

#### **Model Portfolio Advisor to UMA Program Fees**

Tectonic Advisors has an agreement with Envestnet, as a Model Portfolio Advisor in their Private Wealth Manager ("UMA") program offered by Envestnet to investment advisers including CWA. Tectonic Advisors is engaged as a nondiscretionary investment advisor to Envestnet to assist in its management of such assets of the program which are held in the Envestnet client accounts from time to time. Tectonic Advisors will provide various models. Tectonic Advisors is responsible for buy/sell recommendations and nondiscretionary investment advice with respect to individual securities, as well as a recommended portfolio composed of those securities with specific weights by individual security. This information will be used by Envestnet to manage their client accounts. Tectonic ETF models offered on the Envestnet platform are Capital Preservation, Conservative, Moderate, Growth, Aggressive and US Equity. Tectonic Advisors fee for individual models offered in the program range is 35 basis points or 0.35% of the value of the UMA accounts. Tectonic Advisors' fee is paid quarterly in advance. The fee is calculated and deducted from client accounts by Envestnet and is based on the value as of the last business day of the previous calendar quarter.

#### **Due Diligence Provider Fees**

Tectonic Advisors receives a fee under the terms of an agreement with third party investment advisor (including affiliate CWA) for due diligence, investment research regarding investment managers, mutual funds, ETFs, and other investment products as required. The amount of the fee paid to Tectonic Advisors by the third party investment advisor is generally based on total assets in the third party advisor's various recommended investment programs, scope of due diligence provided, degree of

oversight required for each program and any new programs the third party advisor requests be reviewed or analyzed. This fee is paid at least on a quarterly basis. The amount of the fee is reviewed on at least an annual basis.

Tectonic Advisors does not receive any fees from investment managers, custodians, or overlay managers associated with the models it provides due diligence services on.

### **Compensation for the Sale of Securities and Insurance Products**

Tectonic Advisors is related to HWG Insurance Agency, LLC, an insurance agency, and Sanders Morris Harris LLC, a dually registered investment adviser and broker dealer, through common control. Additionally, Associated Persons of Tectonic Advisors may sell securities and/or insurance products through these entities for commission based compensation. Clients are instructed that the fees paid to Tectonic Advisors for advisory services are separate and distinct from the commissions earned by personnel for placing the client in securities and/or insurance products in their capacities as registered representatives and/or licensed insurance agents. Clients to whom Tectonic Advisors offers advisory services are informed that they are under no obligation to use persons associated with HWG Insurance Agency, LLC and Sanders Morris Harris LLC for insurance or securities brokerage services and they may use the insurance or securities brokerage firm and agent of their choice. These relationships are described in more detail in Item 10 of this brochure.

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

Performance based fees are based on a share of capital gains on or capital appreciation of the Client's assets. Tectonic Advisors and its Associated Persons do not charge performance based fees.

### **Types of Clients - Item 7**

Tectonic Advisors' clients are Investment Advisory Firms, including an affiliated firm, banking institutions, platform program providers, individuals, corporations, trusts and pension plans.

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

#### **Methods of Analysis and Investment Strategies**

Tectonic Portfolio strategies are designed to seek returns from global markets that are in excess, over full market cycles, of balanced global stock and bond portfolios with similar risk. Tectonic Advisors' proprietary sentiment and momentum triggers aim to reduce the downside risk of idiosyncratic market events for which there is no historical precedent. Each strategy seeks to achieve its investment objectives by investing in a wide variety of asset classes creating diversified portfolios. Each strategy is then dynamically managed, utilizing rebalancing disciplines based on certain criteria. ETFs selected for inclusion in the portfolio are based on a variety of factors, which may include: investment or sector focus of the ETF, portfolio fit, ETF sponsor and liquidity of the underlying investments and, thus, the ETF itself, among other factors.

Investment managers and mutual funds included on Tectonic Advisors' approved lists ("Approved Funds" and "Approved Managers") are recommended based on certain quantitative criteria. The criteria will include length of track record, performance levels, amounts invested or under management



("quantitative criteria"), and certain qualitative criteria. Qualitative criteria may include the consistency of investment style, employee turnover, efficiency and capacity. Efficiency and capacity is gathered and evaluated by Tectonic Advisors concerning various aspects of the fund's or manager's business. Tectonic Advisors also conducts on site examinations as needed of investment managers and evaluates the results. Investment managers and mutual funds included in databases utilized by Tectonic Advisors are reviewed periodically against Tectonic Advisors' initial quantitative criteria to determine whether a manager or fund is eligible for consideration as an additional Approved Fund or Approved Manager.

Approved Managers and Approved Funds are reviewed periodically to determine whether they continue to meet quantitative maintenance criteria adopted by Tectonic Advisors or when market conditions or specific issues with a Manager or Fund warrant. Any Approved Fund or Approved Manager that fails to meet the Provider's and Tectonic Advisors' maintenance criteria is first placed on a watch list then potentially recommended for removal.

Tectonic Advisors, uses its Approved Funds and Approved Managers list to make investment decisions for all of its Investment Portfolio Management and Due Diligence Provider Services.

### **Risk of Loss**

Investments made by Tectonic Advisors, and/or Approved Managers and/or Investment Funds, are subject to investment loss. The following risk of loss discussion includes not just investments made by Tectonic Advisors directly, but also investments made by Investment Managers and/or contained in Investment Funds.

**General Investment Risk:** All investments come with the risk of losing money. Investing involves substantial risks, including complete possible loss of principal plus other losses and may not be suitable for many members of the public. Investments, unlike savings and checking accounts at a bank, are not insured by the government to protect against market losses. Different market instruments carry different types and degrees of risk. Clients should familiarize themselves with the risks involved in the particular market instruments they intend to invest in. The discussion below does not purport to be a complete enumeration or explanation of the risks involved in the Advisor's investment programs. As the Advisor's investment programs develop and change over time, clients may be subject to additional and different risk factors.

**Investments May Lose Value:** There can be no assurance that a Fund will achieve its investment objectives, and past performance should not be seen as a guide to future returns. The value of investments and the income derived may fall as well as rise and investors may not recoup the original amount invested in a Fund. An investment in a Fund may also be affected by any changes in exchange control regulation, tax laws, withholding taxes, international, political and economic developments, and government, economic or monetary policies.

**Interest Rate Risk:** A Fund that invests in bonds and other fixed income securities may fall in value if interest rates change. Generally, the prices of debt securities rise when interest rates fall, and their prices fall when interest rates rise. Longer term debt securities are usually more sensitive to interest rate changes.

**Credit Risk:** A Fund, that invests in bonds and other fixed income securities, is subject to the risk that the issuer(s) may not make required interest payments. An issuer suffering an adverse change in its financial condition could lower the credit quality of a security, leading to greater price volatility of the security. A

lowering of the credit rating of a security may also offset the security's liquidity, making it more difficult to sell. Funds investing in lower quality debt securities are more susceptible to these problems and their value may be more volatile.

**Futures and Options in Funds:** Funds may invest in options and futures on securities, indices and interest rates for the purpose of efficient portfolio management. Also, Funds may invest in futures, options or forward foreign exchange contracts to hedge market and currency risks. Transactions in futures carry a high degree of risk. The amount of the initial margin is small relative to the value of the futures contract so that transactions are "leveraged" or "geared". A relatively small market movement will have a proportionately larger impact which may work for or against the investor. The placing of certain orders which are intended to limit losses to certain amounts may not be effective because market conditions may make it impossible to execute such orders. Transactions in options also carry a high degree of risk. Selling ("writing" or "granting") an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will also be exposed to the risk of the purchaser exercising the option and the seller will be obliged either to settle the option in cash or to acquire or deliver the underlying investment. If the option is "covered" by the seller holding a corresponding position in the underlying investment or a future on another option, the risk may be reduced.

**Sector Risk:** Funds which concentrate their portfolio in a specific sector may carry a higher degree of risk due to lower diversification and sector-specific risks. Because these investments are limited to a relatively narrow segment of the economy, the Funds' investments are not as diversified as most funds. This means that these Funds tend to be more volatile than other funds and their portfolio values can increase or decrease more rapidly. The performance of each Fund may differ in direction and degree from that of the overall stock market.

**Small Capitalization:** Funds which include smaller capitalization companies, may involve greater risk than Funds investing in larger, more established companies. For example, small capitalization companies may have limited product lines, markets and financial or managerial resources. As a result, price movements in securities of smaller capitalization companies may be more volatile. Transaction costs in securities of smaller capitalization companies can be higher than those of larger capitalization companies and there may be less liquidity.

**Non-Investment Grade Debt:** Credit risk is more pronounced for investments in fixed-income securities that are rated below Investment Grade or which are of comparable quality. The risk of default may be greater and the market for these securities may be less active, making it more difficult to sell the securities at reasonable prices, and also making valuation of the securities more difficult. A Fund may incur additional expenses if an issuer defaults and the Fund tries to recover some of its losses in bankruptcy or other similar proceedings.

**Foreign Risks:** Investment in ETFs or Mutual Funds that hold securities of foreign issuers may involve certain risks that are greater than those associated with investment in securities in US issuers. These include risks of adverse changes in foreign economic, political, regulatory, and other conditions: changes in currency exchange rates or exchange control regulations (including limitations on currency movements and exchanges); differing accounting, auditing, financial reporting, foreign taxes, and legal standards and practices; differing securities market structure; differing trading and settlement practices; ownership restrictions, and higher transaction costs.

**Emerging Market Risks:** Emerging Market Risks and other risks (e.g. nationalization, expropriation or other confiscation of assets of foreign issues) are greater for those ETFs or mutual funds investing in companies tied economically to emerging countries, the economics of which tend to be more volatile than the economics of developed countries.

**Geopolitical/Disruption of Market Risks:** Geopolitical events may adversely affect global economies and markets and thereby decrease the value of an/or ease of trading those ETFs or mutual funds invested in those affected markets. Those events as well as other changes in foreign and domestic economic and political conditions could adversely affect the value of the strategy's investments.

**Currency Risks:** Fluctuations in exchange rates may adversely affect the value of ETFs or mutual funds that hold foreign currency holdings and investment denominated in foreign currencies.

**Commodities Risks:** Commodities involve unique risks that may be distinct from those that affect stocks and bonds, including but not limited to worldwide supply and demand factors, weather conditions, currency movements, and international government policies regarding commodity reserves and choice of currency for commodity pricing. Commodities investments may also involve unique risks inherent to investing in derivatives which may include basis, roll, liquidity and regulatory risks. A detailed explanation of the risks is available in the prospectus of the respective commodity fund. Commodity pools may be subject to different regulatory requirements than traditional funds governed by the Investment Company Act of 1940.

**Hard Assets Risks:** The production and distribution of hard assets, such as precious metals, oil and gas, real estate and/or agricultural commodities may be affected by geopolitical and environmental factors and are cyclical in nature. During periods of economic financial instability, hard asset securities and other instruments may be subject to broad price fluctuations, reflecting volatility of energy and basic materials prices and possible instability of supply of various hard assets. Hard asset securities, hard asset companies, and other instruments may also experience greater price fluctuation than the relevant hard asset. In periods of rising hard asset prices, such securities or instruments may rise at a faster rate and conversely, in times of falling hard asset prices, such securities may suffer a greater price decline.

**Real Estate Risks:** Real estate-related investment (and the ETFs or mutual funds that hold them) may be adversely affected by factors affecting the real estate industry which may include changes in interest rates and social and economic trends. Real Estate Investment Trusts (REITs) may also be subject to the risk of fluctuations in income from underlying real estate assets, poor performance by the ERITs manager, prepayments and defaults by borrowers, adverse changes in tax laws, and with respect to US REITs, their failure to qualify for the special tax treatment granted to TEITs under the Internal Revenue Code of 1986 and/or to maintain exempt status under the Investment Company Act.

**MLP Risks:** Investments in MLPs involve risks different from those of investing in common stock including risks related to limited control and limited rights to vote on matters affecting the MLP, risks related to potential conflicts of interest between the MLP and the MLP's general partner, cash flow risks, dilution risks and risks related to the general partner's limited call right. MLPs are generally considered interest-rate sensitive investments. During periods of interest rate volatility, these investments may not provide attractive returns. Depending on the state of interest rates in general, the use of MLPs could enhance or harm the overall performance of the Portfolio.

**MLP Tax Risks:** MLPs, typically, do not pay U.S. federal income tax at the partnership level. Instead, each partner is allocated a share of the partnership's income, gains, losses, deductions and expenses. A change in current tax law or in the underlying business mix of a given MLP could result in an MLP being treated as a corporation for U.S. federal income tax purposes, which would result in such MLP being required to pay U.S. federal income tax on its taxable income. The classification of an MLP as a corporation for U.S. federal income tax purposes would have the effect of reducing the amount of cash available for distribution by the MLP. Thus, if any of the MLPs owned were treated as corporations for U.S. federal income tax purposes, it could result in a reduction of the value of your investment and lower income, as compared to an MLP that is not taxed as a corporation.

**Exchange Traded Funds:** Diversification does not ensure a profit and may not protect against loss in declining markets. Investors should refer to the individual ETF prospectus for a more detailed discussion of the specific risks and considerations for an individual ETF. ETFs may have underlying investment strategy risks similar to directly investing in commodities, bonds, real estate, international markets or currencies, emerging growth companies, or specific sectors. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. Due to their narrow focus, sector-based investments typically exhibit greater volatility. There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries. When investing in real estate companies, property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance. The risk of loss in trading commodities and futures can be substantial. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you.

**Illiquidity in Certain Investments.** Certain investments, while publicly traded, may have limited liquidity. Investments with limited liquidity (such as bonds that do not trade frequently, small capitalization stocks, structured investments, etc.) can make it difficult to sell such investments, particularly during times of market volatility and/or stress. Further, the liquidity of a particular ETF will be impacted by: (a) the general liquidity of the ETF itself and (b) the liquidity of the underlying investments that comprise the ETF. Market conditions could create a situation where an ETF in Tectonic Advisors' portfolios have limited liquidity or greater volatility, based on these and other factors.

#### **Disciplinary Information - Item 9**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management. There is no history of legal or disciplinary events by our Firm, our principals or advisory representatives.

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

HWG Insurance Agency, LLC is an insurance agency that is related to Tectonic Advisors through common control and ownership. Certain Associated Persons of Tectonic Advisors are separately licensed as insurance agents of HWG Insurance Agency, LLC and can effect transactions in various insurance products, including variable or fixed insurance products and earn commissions for these activities. Tectonic Advisors expects that clients to whom it offers advisory services may also be clients for whom such individuals act as insurance agents. Clients are instructed that the fees paid to the firm for advisory

services are separate and distinct from the commissions earned for placing the client in insurance products. Clients to whom the firm offers advisory services are informed that they are under no obligation to use the firm's Associated Persons for insurance services and may use the insurance brokerage firm and agent of their choice.

Sanders Morris Harris LLC ("SMH") is a dually registered broker-dealer and investment adviser related to Tectonic Advisors through common control and ownership. SMH may receive certain advisory services from Tectonic Advisors such as research, due diligence services and model portfolios. This creates a conflict of interest because of the economic incentive to purchase services from a related entity.

As a broker-dealer, SMH may accommodate the brokerage business of certain advisory clients of Tectonic Advisors. Additionally, certain Associated Persons of Tectonic Advisors hold their securities licenses with SMH. SMH may accept orders for Tectonic Advisors' client accounts and receives brokerage commissions on any products sold in this capacity. Thus, a conflict of interest may exist between the interests of Tectonic Advisors and SMH due to the fact that commissions are earned. Tectonic Advisors clients are advised that they are under no obligation to effect securities transactions with SMH and that similar services may be less expensive elsewhere.

Cain, Watters & Associates is an SEC registered investment adviser, affiliated with Tectonic Advisors through common control and ownership. Specifically, a number of Tectonic Advisors indirect owners have an ownership interest in CWA.

Tectonic Advisors is affiliated with, T Bank, National Association ("T Bank"), through common control and ownership. Specifically, a number of Tectonic Advisors indirect owners have an indirect ownership interest in T Bank. T Bank, a member of the Federal Deposit Insurance Corporation, is a full service bank engaged in traditional lending, cash and/or treasury management and other services. Tectonic Advisors has entered into a separate agreement with T Bank to provide model portfolios, investment research and investment recommendations.

A material part of Tectonic Advisors investment advisory business is its appointment as the lead investment advisor to the T Bank collective pooled funds and its receipt of a fee based upon the assets under management.

In addition to due diligence services provided to CWA, Tectonic Advisors offers strategies to CWA clients. The economic interest of the CWA partners in Tectonic Advisors creates an incentive for Tectonic Advisors and CWA to recommend Tectonic Advisors strategies over that of another manager.

### **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading - Item 11**

#### **Description of Our Code of Ethics**

Tectonic Advisors has adopted a Code of Ethics (the "Code") to address investment advisory conduct. The Code focuses primarily on fiduciary duty, personal securities transactions, insider trading, gifts, and conflicts of interest. The Code includes Tectonic Advisors' policies and procedures developed to protect client's interests in relation to the following topics:

- Tectonic Advisors emphasizes the unrestricted rights of Tectonic Advisors clients to specify investment objectives, guidelines, restrictions and/or conditions on the overall management of their

#### Investment portfolio

- Associated persons or their immediate family members shall not buy or sell securities for their personal portfolio(s) where their decision is derived in whole or in part, by reason of the associated person's employment, unless the information is also available to the investing public on reasonable inquiry. No associated person of the Firm shall prefer his or her own interest to that of the CWA advisory client.
- Tectonic Advisors and its associated persons may not participate in private placements or initial public offerings (IPOs) without pre-clearance from the Firm's Chief Compliance Officer.
- The Firm requires that all individuals must act in accordance with all applicable federal and state regulations governing registered investment advisory practices.
- Records will be maintained of all securities bought or sold by the Firm, associated persons of the Firm, and related entities. A qualified representative of the Firm will Review these records on a regular basis.
- Any individual not in observance of the above may be subject to termination. The full text of the Tectonic Advisors Code of Ethics is available to you upon request.

A copy of Tectonic Advisors' Code of Ethics is available upon request to the Chief Compliance Officer at Tectonic Advisors' principal office address on the cover of this brochure.

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

Tectonic Advisors representatives may buy or sell for themselves securities they also recommend to clients. In all instances, it is presumed that the positions would be so small as to not impact the pricing or performance of the security.

#### **Brokerage Practices - Item 12**

Tectonic Advisors has been engaged by T Bank to act as their lead investment adviser for six collective investment funds used for qualified plan assets and three common trust funds maintained for their personal trust assets (the "Funds"). This arrangement is described in further detail in Item 10 above.

Each fund is managed by one or more independent, third party money managers or invested in mutual funds. Decisions related to the purchase and sale of securities are made by the individual money managers or mutual funds.

Clients participating in the Separately Managed Account Program are required to use TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade"). TD Ameritrade is a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC").

TD Ameritrade is an independent and unaffiliated SEC-registered broker-dealer. TD Ameritrade offers to independent investment Advisors services which include custody of securities, trade execution,

clearance and settlement of transactions. Tectonic Advisors receives some benefits from TD Ameritrade through its participation in the program. (Please see the disclosure under Item 14 below.)

#### **Research and Other Soft Dollar Benefits**

Although not considered “soft dollar” compensation, we may receive benefits from TD Ameritrade for research services that include reports, software, and institutional trading support.

In selecting a broker dealer based on discretionary authority, Tectonic Advisors will endeavor to select those brokers or dealers that will provide the best services at the lowest commission rates possible. The reasonableness of commissions is based on several factors, including the broker’s ability to provide professional services, competitive commission rates, volume discounts, execution price negotiations, the broker’s reputation, experience and financial stability of the broker or dealer, and the quality of service rendered by the broker or dealer in other transactions.

Best execution is not measured solely by reference to commission rates. Paying a broker a higher commission rate than another broker might charge is permissible if the difference in cost is reasonably justified by the quality of the brokerage services offered. In addition, Tectonic Advisors may cause the account to pay a higher commission in recognition of the value of “research services” and additional brokerage products and services a broker-dealer has provided or may be willing to provide.

#### **Brokerage for Client Referrals**

Tectonic Advisors does not receive client referrals from broker-dealers and custodians in which we have an institutional advisory arrangement.

#### **Directed Brokerage**

Tectonic Advisors directs clients to TD Ameritrade Institutional, a division of TD Ameritrade, Inc. (“TD Ameritrade”) as Custodian for the Separately Managed Account Program. TD Ameritrade will also provide execution and clearing services for transactions related to the SMA Program. Factors that Tectonic Advisors considers when recommending TD Ameritrade include historical relationship, financial strength, reputation, execution capabilities, pricing, and service. Although the commissions and/or transaction fees paid by Tectonic Advisor’s clients shall comply with Tectonic Advisors duties to obtain best execution, a client may pay a commission or transaction fee that is higher than another qualified broker dealer might charge to affect the same transaction.

The third party investment advisors recommended by Tectonic Advisors to manage the Pooled Funds of T Bank may direct brokerage to a specific broker-dealer.

#### **Trade Allocations**

Tectonic Advisors will aggregate purchase or sale orders for clients by custodial relationship. Each custodial relationship will be evaluated based upon cut off trading times, and or platform capabilities to ensure all accounts are treated equitably in the timing of executions. In the cases where Tectonic acts as both model advisor and discretionary manager trades will be provided simultaneously, allowing for same day execution. Tectonic Advisors, however, will not aggregate transactions unless it believes such aggregation will result in the best overall execution for all participating clients and is consistent with the terms of the applicable investment advisory agreement. Furthermore, no client account will be favored by Tectonic Advisors over any other account. All client accounts participating in an aggregated trade will



receive the average price and if applicable, pay a proportional share of any commission, subject to a minimum ticket charge.

Tectonic strategies are reviewed daily, as security adjustments are made; Tectonic Advisors will use the respective custodial platform to generate a trade ticket that will include all accounts and number of shares either to be bought or sold. The ticket will then be aggregated into one trade for all accounts that hold or need the security at the particular custodian. The aggregation will be across all models that hold the particular security at the respective custodian. The aggregated trade will then be executed and allocated to the respective accounts.

If for any reason, the order is only partially filled at the end of the day, it will be allocated alternating an A to Z then Z to A method, based upon account last name.

### **Review of Accounts - Item 13**

Client Accounts are generally reviewed on at least an annual basis. The annual reviews typically focus on the client's personal financial situation, any current or new account restrictions or any changes in investment objectives as well as the continued suitability of the client's investment policy statement. Clients are instructed to notify Tectonic Advisors immediately of any changes in their investment objectives or financial condition.

Tectonic Advisors continually monitors the investment models and strategies. Changes affecting a particular investment strategy will trigger changes to all client portfolios following that strategy or model.

Clients will receive monthly or quarterly statements from their custodian and may access their accounts via their custodian's website. The custodian's website will have the custodian's monthly or quarterly statements and in some cases daily information. In addition, Tectonic Advisors produces a quarterly performance report as a service to its clients; it is not intended to take the place of the custodial statements.

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

As disclosed under Item 12 above, Tectonic Advisors participates in TD Ameritrade's institutional customer program and Tectonic Advisors may recommend TD Ameritrade to clients for custody and brokerage services. There is no direct link between Tectonic Advisors' participation in the program and the investment advice it gives to its clients, although Tectonic Advisors receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors.

These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Tectonic Advisors participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided



to Tectonic Advisors by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by Tectonic Advisors' related persons.

Some of the products and services made available by TD Ameritrade through the program may benefit Tectonic Advisors but may not benefit its client accounts. These products or services may assist Tectonic Advisors in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help Tectonic Advisors manage and further develop its business enterprise. The benefits received by Tectonic Advisors or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, Tectonic Advisors endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Tectonic Advisors or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the Tectonic Advisors' choice of TD Ameritrade for custody and brokerage services.

Non-employee (outside) consultants, individuals, and/or entities, who are directly responsible for bringing a client to Tectonic Advisors, may receive compensation from the firm. Such arrangements will comply with the requirements set forth in Rule 206(4)-3 of the Investment Advisers Act of 1940, including the requirement that the relationship between the solicitor and the investment adviser be disclosed to the client at the time of the solicitation or referral. In addition, all applicable state laws will be observed. Under these arrangements, the client does not pay higher fees than Tectonic Advisors' normal/typical advisory fees.

#### **Custody - Item 15**

Tectonic Advisors is deemed to have custody of client funds because of the fee deduction authority granted by the client in the Advisory Agreement.

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's account assets. Tectonic Advisors urges the client to carefully review these statements.

#### **Investment Discretion - Item 16**

As part of the execution of the Investment Management Agreement, Clients will grant Tectonic Advisors discretionary authority with regard to the investment and reinvestment of the assets with full authority to buy, sell, or otherwise effect transactions involving the assets in the Client accounts.

Additionally, Tectonic Advisors is granted discretionary authority through Investment Advisory Agreement, whereby Tectonic Advisors advises Clients on allocations which include third party investment advisers. Tectonic Advisors has discretion to utilize or not the third party investment advisers engaged to fulfill the particular allocation.

In all cases, such discretion is to be exercised in a manner consistent with the investment policy statement, including any client imposed restrictions, for the particular client account.

### **Voting Client Securities - Item 17**

#### **Proxy Voting**

It is the policy of Tectonic Advisors to not vote on behalf of client, or direct client participation in proxies. The Client shall retain responsibility for voting any proxies solicited by issuers of securities beneficially owned by the Client. Further, the Client shall maintain exclusive responsibility for all legal proceedings or other type events pertaining to the Assets, including, but not limited to, class action lawsuits.

Tectonic Advisors will determine whether to return any proxy documentation or documentation regarding clients' participation in class action lawsuits that is inadvertently received, by Tectonic Advisors, to the sender, or to forward such information to the respective clients.

Any questions related to this policy can be directed to Tectonic Advisors Compliance via email to [steve.mangold@smhgroup.com](mailto:steve.mangold@smhgroup.com)

### **Financial Information - Item 18**

Tectonic Advisors does not require the prepayment of over \$1,200, six or more months in advance. Additionally, Tectonic Advisors has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

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

**This section is intentionally left blank- Our firm is SEC registered**