



Main Office:  
19200 Von Karman Avenue  
Suite 1050  
Irvine, CA 92612  
949.253.8888  
[www.apriem.com](http://www.apriem.com)

21250 Hawthorne Boulevard  
Suite 500  
Torrance, CA 90503  
888.253.0288  
By Appointment

4660 La Jolla Village Drive  
Suite 100  
San Diego, CA 92122  
888.253.0288  
By Appointment

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

March 26, 2018

This brochure provides information about the qualifications and business practices of Apriem Advisors. If you have any questions about the contents of this brochure, please contact us at 949.253.8888. 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.

Any reference to or use of the terms “registered investment adviser” or “registered” does not imply that Apriem Advisors or any person associated with Apriem Advisors has achieved a certain level of skill or training.

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

## ITEM 2 - MATERIAL CHANGES

**Revised March 26, 2018**

The purpose of this page is to inform you of material changes since the last annual update to this brochure. If you are receiving this brochure for the first time this section may not be relevant to you.

Apriem Advisors reviews and updates our brochure at least annually to confirm that it remains current. Below is a summary of the material changes made to our brochure since the last annual update.

Material changes from Apriem Advisors' brochure dated March 10, 2017: None

## ITEM 3 - TABLE OF CONTENTS

<b>ITEM 1 - COVER PAGE.....</b>	<b>1</b>
<b>ITEM 2 - MATERIAL CHANGES.....</b>	<b>2</b>
<b>ITEM 3 - TABLE OF CONTENTS.....</b>	<b>3</b>
<b>ITEM 4 - ADVISORY BUSINESS.....</b>	<b>5</b>
Description of Advisory Firm .....	5
Advisory Services Offered.....	5
Tailored Services and Client Imposed Restrictions.....	7
Assets Under Management .....	8
<b>ITEM 5 - FEES AND COMPENSATION .....</b>	<b>8</b>
Fee Schedule.....	8
Billing Method .....	9
Termination .....	9
Other Fees and Expenses Clients May Pay .....	9
Other Compensation We Receive .....	10
<b>ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....</b>	<b>10</b>
<b>ITEM 7 - TYPES OF CLIENTS .....</b>	<b>11</b>
Account Requirements .....	11
<b>ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....</b>	<b>11</b>
Methods of Analysis and Investment Strategies .....	11
Investing Involves Risk.....	14
Specific Security Risks .....	15
<b>ITEM 9 - DISCIPLINARY INFORMATION.....</b>	<b>25</b>
<b>ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.....</b>	<b>25</b>
Dual Registration as Insurance Agency.....	25
<b>ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....</b>	<b>26</b>
Code of Ethics .....	26
<b>ITEM 12 - BROKERAGE PRACTICES .....</b>	<b>28</b>
The Custodian and Brokers We Use .....	28
Brokerage for Client Referrals .....	31

Aggregation and Allocation of Transactions.....	31
<b>ITEM 13 - REVIEW OF ACCOUNTS.....</b>	<b>33</b>
Account Reviews.....	33
Account Reporting.....	33
<b>ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION.....</b>	<b>33</b>
Custodian Support Products and Services.....	33
Due Diligence Expenses.....	34
Solicitor Arrangements.....	34
<b>ITEM 15 - CUSTODY.....</b>	<b>34</b>
<b>ITEM 16 - INVESTMENT DISCRETION.....</b>	<b>35</b>
<b>ITEM 17 - VOTING CLIENT SECURITIES.....</b>	<b>35</b>
<b>ITEM 18 - FINANCIAL INFORMATION.....</b>	<b>36</b>

## ITEM 4 - ADVISORY BUSINESS

### Description of Advisory Firm

Apriem Advisors (also “we” or “us”) is a privately owned corporation headquartered in Irvine, California. Founded by Mark K. Iwamoto and Harmon A. Kong, Apriem Advisors has been providing investment advisory services since 1998. Apriem Advisors is registered as an investment adviser with the U.S. Securities and Exchange Commission. The firm’s principal owners are Harmon Kong, Rhonda Ducote, and Benjamin Lau.

### Advisory Services Offered

#### Investment Management Services

Apriem Advisors manages client portfolios on an ongoing basis. Portfolios are managed based on the client’s investment objectives utilizing the investment strategy selected by the client. Apriem Advisors’ investment strategies are described in **Item 8 - Methods of Analysis** below. Investment management services include limited financial planning analysis, as needed, but do not include comprehensive financial planning services.

Minimum account requirements are discussed under **Item 7 – Types of Clients**.

#### Wealth Management Services

Apriem Advisors offers wealth management services primarily to high net worth individuals and families. Typically, our clients are seeking not just money management but comprehensive wealth planning. Through Apriem Advisors’ wealth management services, we work with clients to get a complete overview of their financial picture to create a customized wealth management approach. Our wealth management services include implementation of the client’s investment plan through investment management utilizing customized portfolios as well as the availability of Apriem Total View, an online financial tracking system that allows our clients to consolidate their total financial picture.

Minimum account requirements are discussed under **Item 7 – Types of Clients**.

#### Customized Portfolios

Once we have determined the overall investment approach for the client, we design, monitor, and evaluate the client’s investment portfolio. The customized portfolios we build are tailored to address the client’s unique financial needs and preferences. All portfolios are customized, and clients will not have identical portfolios. Asset allocations and client portfolio performance may differ even among clients with similar risk tolerance and objectives.

#### Financial Planning

As part of the wealth management process, we offer financial planning services to all clients. Our clients may focus on one or a combination of objectives, including:

- Wealth Accumulation & Retirement

- Wealth Preservation & Income Investing
- Estate & Business Planning
- Philanthropic Planning
- Risk Management
- Tax-efficient Investing
- Education Planning

Our financial planning services do not include preparation of any kind of income tax, gift, or estate tax returns or preparation of any legal documents, including wills or trusts. However, we may work together with clients' CPAs and attorneys to coordinate services for the client.

Risk management planning seeks to address the uncertainties of life. Apriem Advisors can offer specialized insurance needs analysis in the following areas:

- Life Insurance
- Health Insurance
- Long-term Care Insurance
- Business Insurance Planning

Apriem Advisors is a licensed insurance agency and may receive commissions on the sale of insurance products purchased by clients. For more information about these fees, please see ***Other Compensation We Receive*** in ***Item 5*** below.

### *Private Client Services*

Ultra-high net worth clients often have enhanced strategic planning needs beyond wealth management, based on the amount and complexity of their financial assets. Apriem Advisors offers private client services that take a holistic view of clients' financial needs across multiple generations. Clients work directly with the firm's principals to determine planning and investment needs and to coordinate with their professional advisors.

Minimum account requirements are discussed under ***Item 7 – Types of Clients***.

### *Investment Advice*

Depending on the client's account strategy, we typically use the following types of securities in our ongoing management:

- Equity securities, such as stocks and foreign securities listed on US exchanges (ADRs)
- Fixed income securities, such as corporate and government bonds, preferred stocks, and TIPS
- Exchange traded funds (ETFs), open-end investment companies (mutual funds), exchange traded notes (ETNs), and closed-end investment companies
- Alternative investments, such as commodity funds, gold funds, inverse ETFs and other funds (leveraged and unleveraged), real estate investment funds, and registered hedge funds (upon additional discussion with the client)

- Money market funds and cash

Apriem Advisors may offer investment advice on any investment held by the client at the start of an advisory relationship. We may also occasionally offer advice regarding additional types of investments if they are appropriate to address the individual needs, goals, and objectives of the client or in response to client inquiry. We describe the material investment risks for many of the securities that we recommend under the heading ***Specific Security Risks*** in ***Item 8*** below.

We discuss our discretionary authority below under ***Item 16 - Investment Discretion***. For more information about the restrictions clients can put on their accounts, see ***Tailored Services and Client Imposed Restrictions*** in this item below.

We describe the fees charged for investment management services below under ***Item 5 - Fees and Compensation***.

### ***Limitations on Investments***

In some circumstances, Apriem Advisors' advice may be limited to certain types of securities. For example, when we provide services to participants in an employer-sponsored plan, the participant may be limited to investing in securities included in the plan's investment options. Therefore, Apriem Advisors can only select investments from among the available options, and will not recommend other securities, even if there may be better options elsewhere. Similarly, if Apriem Advisors is managing assets within an annuity, Apriem Advisors is limited to those investment options made available by the insurance company.

## **Tailored Services and Client Imposed Restrictions**

We believe every client is unique. Each has highly individual preferences, resources, and challenges. Therefore we begin every client relationship by getting to know the client, so that we can better understand their financial circumstances. Only then can we develop an investment strategy and wealth management approach that is specifically suited to our clients' needs. Apriem Advisors manages client accounts based on the investment strategies discussed below under ***Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss***. We apply the strategy for each client, based on the client's individual circumstances and financial situation. We make investment decisions for clients based on information the client supplies about their financial situation, goals, and risk tolerance. Our recommendations may not be suitable if the client does not provide us with accurate and complete information. It is the client's responsibility to keep Apriem Advisors informed of any changes to their investment objectives or restrictions.

For certain clients or groups of clients, Apriem Advisors may implement trading platforms and strategies tailored specifically to these client groups. For example, clients who seek more aggressive trading strategies may be grouped together, as well as clients who only want equities in their portfolios.

In addition, we recognize that the Wealth Manager working with a particular client has unique insight into the appropriate investment decisions to be made for that client's account. While Apriem Advisors' investment team generally selects and manages client portfolios, the Wealth Managers are consulted with respect to the objectives and restrictions of their clients' accounts and may, in their discretion, elect not to participate in certain securities investments for some or all of their clients' accounts.

Clients may also request other restrictions on the account, such as when a client needs to keep a minimum level of cash in the account or does not want us to buy or sell certain specific securities or security types in the account. We reserve the right to not accept and/or terminate management of a client's account if we feel that the client-imposed restrictions would limit or prevent us from meeting or maintaining the client's investment strategy.

## Assets Under Management

As of 12/31/2017, the total amount of assets under our management was:

Discretionary Assets	\$ 636,120,667
<u>Non-Discretionary Assets</u>	<u>\$ 12,616,149</u>
Total Assets	\$ 648,736,816

## ITEM 5 - FEES AND COMPENSATION

### Fee Schedule

Apriem Advisors charges annual advisory fees for advisory services based on a percentage of the quarter end market value of the managed portfolio per the following schedule:

#### Fee for Investment Management Services:

<u>Quarter End Portfolio Balance</u>	<u>Annual Fee</u>
First \$5,000,000	0.95%
Next \$5,000,000	0.75%

Institutional Pricing (corporate, non-profit, pension, high net worth)

Minimum \$10,000,000	0.75%
----------------------	-------

#### Fee for Wealth Management Services:

<u>Quarter End Portfolio Balance</u>	<u>Annual Fee</u>
First \$1,000,000	1.25%
Next \$4,000,000	1.00%
Next \$5,000,000	0.75%
Next \$10,000,000	0.50%

We will typically aggregate related client accounts for purposes of calculating the advisory fees applicable to each client. At our discretion, we may negotiate our fees with clients or may choose to



waive fees for certain client or family accounts. Fees may be negotiated based on a number of factors, including a pre-existing relationship with the client or a new client's relationship with existing clients. We may also have existing clients under historical or alternative fee arrangements, including fixed fee arrangements which are no longer offered to new clients.

The fee schedule above includes any financial or investment planning done as part of our overall wealth management services for the client, but does not include the cost of securities or insurance products recommended within the plan or associated trading costs or commissions (described in ***Other Fees and Expenses Clients May Pay***, below).

## **Billing Method**

Apriem Advisors' advisory fees are payable quarterly in arrears based on the account market value of managed assets on the last day of the calendar quarter. Valuations are provided to Apriem Advisors from the underlying custodian by direct download from the custodian and/or client statements. In the event a security is not priced by the client's custodian or Apriem Advisors believes that the custodian's price does not adequately represent investment value, we may obtain a price from the issuer of the security or other independent third-party or otherwise take steps to "fair value" the security, in accordance with Apriem Advisors' internal valuation procedures.

Quarterly fees are adjusted on a time-weighted basis for additions or withdrawals during a quarter. The client's quarterly fee will reflect pro-rated additions and/or reductions.

With client authorization, we will typically withdraw our advisory fee automatically from the client's account each quarter upon instruction to the client's independent custodian. We may make alternative arrangements at the client's request. All clients will receive brokerage statements from the custodian no less frequently than quarterly. The custodian statement will show the deduction of the advisory fee.

## **Termination**

Either party may terminate the advisory agreement at any time by providing ten (10) days written notice to the other party. In the event client terminates the advisory agreement, Apriem Advisors will not liquidate any securities in the client's account, unless authorized in writing by the client to do so. In the event of the client's death or disability, Apriem Advisors will continue management of the client's account until Apriem Advisors is notified of the client's death or disability and given alternative instructions by an authorized party. Upon notice of termination, we will calculate the final fees due for services provided through the date of termination. Any advisory fees that we have earned for the services provided will be due upon termination. We will prorate the fee due based on the effective date of termination.

## **Other Fees and Expenses Clients May Pay**

Apriem Advisors' fees do not include custodian fees. Any brokerage commissions, stock transfer fees, and other similar charges that are incurred in connection with transactions for a client's account will be

paid out of the assets in the client's account and are in addition to the advisory fees the client pays to Apriem Advisors. See **Item 12 - Brokerage Practices** below for more information.

In addition, any mutual fund shares held in a client's account may be subject to deferred sales charges, 12b-1 fees, and other fund-related expenses. The fund's prospectus fully describes the fees and expenses. All fees paid to us for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds. Mutual funds pay advisory fees to their managers, which are indirectly charged to all holders of the mutual fund shares. Clients with mutual funds in their portfolios are effectively paying both Apriem Advisors and the mutual fund manager for the management of their assets.

If, as part of an insurance needs analysis, the client decides to purchase the insurance products we recommend, the client may pay commissions or other transaction-related fees on these insurance products.

### **Other Compensation We Receive**

Apriem Advisors is also a licensed insurance agency in California doing business as Apriem Insurance Services and some of our personnel are licensed as insurance agents (see below under **Item 10 – Other Financial Industry Activities and Affiliations**). As an insurance agency, Apriem Insurance Services and our licensed agents can receive commissions for the sale of insurance products to clients.

Insurance activities only account for a small fraction of our revenues (approximately 1% in the past year). The insurance commissions Apriem Insurance Services receives are separate from any advisory fees that a client may pay to us for investment advisory services. This presents a conflict of interest because Apriem Insurance Services or our licensed personnel may have an incentive to recommend insurance products as a result of the commission. When recommending commissionable products to clients, we have a duty to only recommend products that are suitable for the client. Clients are not obligated to act on any insurance recommendations or place any transactions through Apriem Insurance Services or our affiliated insurance agents if they decide to follow our recommendations.

## **ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Apriem Advisors does not offer performance-based fees to new clients; however, we have clients with existing performance-based fee arrangements. Performance fee arrangements are only available for clients that meet certain internal and regulatory qualifications. Managing accounts under different fee arrangements may create a conflict of interest. Performance-based fee arrangements may create a conflict of interest for portfolio managers as they may have incentives to:

1. allocate investment opportunities that they believe might be the most profitable to performance-based fee accounts; and/or
2. make investments with more risk or that are more speculative than those that might be recommended under a different fee arrangement.

We have adopted policies and procedures reasonably designed to address these types of conflicts. Specifically, we seek to allocate investment opportunities between accounts on a fair and equitable basis over time and prevent non-suitable investments in client accounts.

## **ITEM 7 - TYPES OF CLIENTS**

Apriem Advisors generally provides investment advisory services to high net worth clients, including individuals and families, trusts and estates, and individual participants of retirement plans. In addition, we offer advisory services to pension and profit sharing plans, charitable organizations, and businesses.

### **Account Requirements**

For new accounts under our Wealth Management Services, we generally require a minimum account size of \$500,000 to open or maintain an account. For new accounts under our Investment Management Services, we generally require a minimum account size of \$100,000 (\$250,000 for Income Strategies) to open or maintain an account. Private Client Services are generally only available to clients with \$5 million in investable assets with Apriem Advisors or a net worth of \$10 million. We may reduce or waive the account minimum requirements at our discretion, and existing clients may be maintained at lower minimums.

## **ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

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

As part of our Investment Management Services, Apriem Advisors manages client accounts according to our Tactical Index, Dynamic ETF, or All-Income Strategies. For clients utilizing our Wealth Management or Private Client Services, portfolios are managed on a customized basis.

#### *Tactical Index (TI) Strategy*

The TI strategy applies active technical analysis methods to a diversified mix of passive ETF investments to determine buy/sell trigger points. Technical analysis is the primary factor in managing accounts under the TI strategy. Technical analysis requires price movement data which can translate into price trends sufficient to dictate a market entry or exit decision. In a trendless or erratic market, a technical method may fail to identify trends requiring action. In addition, technical methods may overreact to minor price movements, establishing positions contrary to overall price trends, which may result in losses. Finally, a technical trading method may under perform other trading methods when fundamental factors dominate price moves within a given market. Momentum strategies such as TI may be subject to a possible decline in effectiveness due to increasing numbers of investors using the same or substantially similar strategies.

#### *Dynamic ETF Strategy – Growth*

The investment objective of the strategy is to achieve growth of capital by investing primarily in ETFs and secondarily in exchange traded notes, open-ended and closed-end mutual funds, and alternative

investments. To pursue our primary goal of long-term growth, we take a top-down analytical approach to identifying global trends in the marketplace. Once broad trends have been identified, our management team pinpoints:

- Favorable global economies and markets
- Favorable market capitalization indices on a risk/return basis
- Favorable sectors and industries

The portfolio management team typically will sell or reduce a position when a particular investment becomes overvalued in our opinion.

### *All-Income Strategies*

The primary objective of the income strategies is to produce a high level of current income, with a secondary objective of capital appreciation. The strategies invest in income producing investments of any kind, including ETFs, dividend paying stocks, preferred stocks, debt instruments, master limited partnerships (MLPs), real estate investment trusts (REITs), and open and closed end funds. A combination of fundamental and technical factors will be used in the security selection process.

Apriem Advisors offers two income strategies to target different risk tolerance levels: All-Income and All-Income Plus. The All-Income Plus strategy will generally have a higher allocation to higher yielding instruments and is expected to experience more volatility than the All Income strategy.

### *Customized Portfolios*

Our clients' financial objectives are the cornerstone of our portfolio design and implementation. Through our Wealth Management Services, Apriem Advisors creates customized asset allocation mixes tailored to the specific needs of each client. We generally use diversification in an effort to optimize the risk and potential return of a portfolio, with strategies ranging from aggressive growth to all fixed income, depending on the client's investment objectives, risk tolerance, time horizon, and unique circumstances.

Since we treat each client account uniquely, client portfolios with similar investment objectives and asset allocation goals may own different securities. Timing and tax factors also influence our investment decisions.

### *Methods of Analysis for Selecting Securities*

Apriem Advisors selects suitable categories of investments based on the clients' attitudes about risk and their need for capital appreciation or income. Different instruments involve different levels of exposure to risk. Within each investment category, we select individual securities with characteristics that are most consistent with the client's objectives. We deal with any client restrictions on an account-by-account basis.

### *General Approach*

Typically, client accounts will be composed using one or more of the following security types:

**Mutual funds and ETFs:** Mutual funds offer the dual advantages of expert management and diversification. We rely on quantitative and qualitative criteria to select the managers for inclusion in our clients' portfolios. Once a fund has made the grade, we continue to monitor its performance to confirm that it adheres to its style discipline and delivers consistent performance. Growth investments may include small- and mid-cap stock mutual funds, international stock mutual funds, and sector and index exchange traded funds (ETFs).

**Equity investments:** Stocks have, historically, offered investors the best long-term investment performance relative to bonds and cash, although they also have greater risk. We use fundamental research and technical analysis to identify companies with strong market leadership and those that have demonstrated consistent earnings growth. Once selected, stocks are monitored to confirm they remain attractively valued and offer attractive potential for return. When a company's stock no longer meets these criteria, we will sell it.

We also seek to invest in companies that have created value by providing shareholders with consistent, increasing dividend payments over time. To pursue the strategy's primary goal of total return, we rely on fundamental research to identify stocks that we believe are undervalued relative to:

- The markets
- Their industries
- Their historical valuations

The portfolio management team believes that a company's dividend history and its earnings history are key indicators of its financial health and future prospects. We typically will sell or reduce a position when the stock's dividend yield falls into its lower historical range (i.e., when the stock price rises disproportionately to its dividend), or if its long term fundamentals suggest further price appreciation is unlikely.

At times, Apriem Advisors may purchase newly-issued and other equity securities that have a limited trading history. While these securities do not necessarily meet the investment criteria described above, we may purchase them for client portfolios based on anticipated future growth.

**Fixed-income investments:** Bonds can provide stable, predictable streams of income and add diversity to a stock portfolio that may reduce overall portfolio volatility. We use a combination of taxable and tax-free, corporate and government fixed-income securities, bond mutual funds, preferred stocks, and TIPS to pursue our clients' portfolio objectives. Our selection process relies on quantitative comparisons of credit quality, duration, and yield spread analysis.

**Alternative investments:** For additional diversity, we may include alternative investments in our clients' portfolios, such as commodity funds, precious metal funds, currency investments, broad market and sector inverse ETFs and other funds (leveraged or unleveraged), master limited partnerships (MLPs) and real estate investment funds. We may also make investments in hedge funds and non-publicly traded limited partnerships upon additional discussion with the client.

### *Other Strategies*

Upon client request, we may manage client accounts according to other strategies. Rather than employing an asset allocation method, these strategies may use a more opportunistic approach to choosing investments.

In addition, a client may at any time direct us to make an investment of his or her own choosing. Investments directed by the client may be in securities that Apriem Advisors does not recommend for other clients and may involve risks not described in this brochure.

### *Investment Strategies for Managing Portfolios*

In determining entry and exit points for securities in customized accounts, we use fundamental analysis to determine whether the security still meets our investment criteria. We may also use technical analysis factors in an effort to predict favorable conditions for buying and/or selling a security. Technical analysis is the primary factor used in managing the TI strategy.

Apriem Advisors primarily seeks to hold securities for the longer-term, but may use short-term trades, short sales, inverse ETFs (leveraged and unleveraged), and margin leverage when in Apriem Advisors' judgment they are appropriate for a particular account or given market condition. These strategies may increase the risk in a client's portfolio. Short-selling includes the risk of theoretically unlimited loss if the security sold short rises in value as opposed to falling in value and if the short sale is not covered by a similar security. While the use of margin borrowing or leveraged funds can increase returns, it can also magnify losses. Clients are responsible for the payment of any margin charges. Portfolio strategies are determined based on the client's situation and risk tolerance, and clients may specifically request that Apriem Advisors limit or avoid the use of these strategies in their accounts. We may also consider additional strategies upon discussion with the client.

## **Investing Involves Risk**

Investing in securities always involves the risk that you will lose money. Before investing in the securities markets, clients should be prepared to bear that risk. Over time, a client's account value will fluctuate. At any time, your assets may be worth more or less than the amount you invested. As with any investment strategy, there is no guarantee that our strategies will be successful. Apriem Advisors makes no guarantees or promises that our market analysis will be accurate or the investment strategies we use will be successful.

Apriem Advisors exercises our discretionary authority to invest in securities that we believe are appropriate for the client, based on our understanding of the client's risk tolerance and investment objectives. We have generally summarized below what we feel are relevant risks broadly relating to the types of securities we primarily invest in for client accounts; however, securities may be subject to additional risks that are specific to that security or issuer, and we cannot and do not attempt to cover all risks that clients may be exposed to within their portfolios. Clients are strongly encouraged to review the prospectus disclosures and offering documents relating to the securities held in their portfolios if

they have any questions, as these documents discuss in more detail the risks relating to the particular product. These documents are provided to the client by the client's custodian/broker. Clients with questions regarding a particular security should contact Apriem Advisors or the custodian/broker.

## **Specific Security Risks**

### *General Risks of Owning Securities*

The prices of securities held in client accounts and the income they generate may decline in response to certain events taking place around the world. These include events directly involving the issuers of securities held in a client's account (or underlying assets of mutual funds), conditions affecting the general economy, and overall market changes. Other contributing factors include local, regional, or global political, social, or economic instability and governmental or governmental agency responses to economic conditions. Finally, currency, interest rate, and commodity price fluctuations may also affect security prices and income.

### *Mutual Funds (Open-end Investment Company)*

A mutual fund is a company that pools money from many investors and invests the money in stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. The portfolio of the fund consists of the combined holdings it owns. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate. The price that investors pay for mutual fund shares is the fund's per share net asset value (NAV) plus any shareholder fees that the fund imposes at the time of purchase (such as sales loads).

Mutual funds have benefits such as professional management, diversification, affordability, and liquidity. However, they also have features that some investors might view as disadvantages:

#### *Costs Despite Negative Returns*

Mutual funds charge investors sales charges, annual fees, and other expenses regardless of how the fund performs. Depending on the timing of their investment, investors may also have to pay taxes on any capital gains distribution they receive. This includes instances where the fund went on to perform poorly after purchasing shares.

#### *Lack of Control*

Investors typically cannot ascertain the exact make-up of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades.

#### *Price Uncertainty*

With an individual stock, investors can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling a broker or your investment adviser. Investors can also monitor how a stock's price changes from hour to hour—or even second to second. By contrast, with a mutual fund, the price at which an investor purchases or redeems shares will typically depend on the fund's NAV, which the fund might not calculate until many hours after the investor placed the order.

In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

### *Different Types of Funds*

When it comes to investing in mutual funds, investors have literally thousands of choices. Each type has different features and different risks and rewards. Generally, the higher the potential return, the higher the risk of loss.

#### *Money Market Funds*

Money market funds have relatively low risks, compared to other mutual funds (and most other investments). By law, they can invest in only certain high quality, short-term investments issued by the U.S. Government, U.S. corporations, and state and local governments. Money market funds try to keep their net asset value (NAV), which represents the value of one share in a fund, at a stable \$1.00 per share. However, the NAV may fall below \$1.00 if the fund's investments perform poorly. Investor losses have been rare, but they are possible. Money market funds pay dividends that generally reflect short-term interest rates, and historically the returns for money market funds have been lower than for either bond or stock funds. That is why "inflation risk," the risk that inflation will outpace and erode investment returns over time, can be a potential concern for investors in money market funds.

#### *Bond Funds*

Bond funds generally have higher risks than money market funds, largely because they typically pursue strategies aimed at producing higher yields. Unlike money market funds, the SEC's rules do not restrict bond funds to high quality or short-term investments. Because there are many different types of bonds, bond funds can vary dramatically in their risks and rewards.

Some of the risks associated with bond funds include:

##### *Credit Risk*

There is a possibility that companies or other issuers may fail to pay their debts (including the debt owed to holders of their bonds). Consequently, this affects mutual funds that hold these bonds. Credit risk is less of a factor for bond funds that invest in insured bonds or U.S. Treasury Bonds. By contrast, those that invest in the bonds of companies with poor credit ratings generally will be subject to higher risk.

##### *Interest Rate Risk*

There is a risk that the market value of the bonds will go down when interest rates go up. Because of this, investors can lose money in any bond fund, including those that invest only in insured bonds or U.S. Treasury Bonds. Funds that invest in longer-term bonds tend to have higher interest rate risk.

##### *Prepayment Risk*

Issuers may choose to pay off debt earlier than the stated maturity date on a bond. For example, if interest rates fall, a bond issuer may decide to "retire" its debt and issue new bonds that pay a lower rate. When this happens, the fund may not be able to reinvest the proceeds in an investment with as high a return or yield.



## *Stock Funds*

Although a stock fund's value can rise and fall quickly (and dramatically) over the short term, historically stocks have performed better over the long term than fixed income investments like corporate bonds, government bonds, and treasury securities. Overall "market risk" poses the greatest potential danger for investors in stocks funds. Stock prices can fluctuate for a broad range of reasons—such as the overall strength of the economy or demand for particular products or services. Not all stock funds are the same. For example:

### Growth Funds

Growth funds focus on stocks that may or may not pay a regular dividend but have the potential for large capital gains. These funds favor companies expected to grow earnings, which could result in stock prices rising faster than the economy, and may be smaller and less seasoned companies. The smaller and less seasoned companies that may be in a growth fund have a greater risk of price volatility. Growth stocks, which can be priced on future expectations rather than current results, may decline substantially when expectations are not met or general market conditions weaken.

### Equity Income Funds

Equity income funds stress current income over growth, and may invest in stocks that pay regular dividends. These funds are subject to dividend payout risk, which is the possibility that a number of the companies in which the fund invests will reduce or eliminate the dividend on the securities held by the fund.

### Mid Cap Funds

Funds that invest in companies with mid-range market capitalizations involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies.

### Small Cap Funds

Funds that invest in stocks of small companies involve additional risks. Smaller companies typically have higher risk of failure, and are not as established as larger blue-chip companies are. Historically, smaller-company stocks have experienced a greater degree of market volatility than the overall market average.

### International Funds

International investments are subject to additional risks, including currency fluctuation, political instability, and potential illiquid markets.

### Emerging Market Funds

Funds that invest in foreign securities of smaller, less-developed countries involve special additional risks. These risks include, but are not limited to currency risk, political risk and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

### Alternative Investment Funds

Alternative investments fall outside the three traditional asset types (stocks, bonds, and cash). Alternative investments include hedge funds, managed futures, real estate, commodities and derivatives

contracts. Each fund is subject to specific risks, depending on the nature of the fund. These types of investments may have additional or enhanced risks. Clients should carefully review the prospectus disclosures and offering documents of these products, which contain important information about the specific risks of the product.

### Equity Securities

Equity securities represent an ownership position in a company. Equity securities typically consist of common stocks. The prices of stocks and the income they generate (such as dividends) fluctuate based on, among other things, events specific to the company that issued the shares, conditions affecting the general economy and overall market changes, changes or weakness in the business sector the company does business in, and other factors.

#### *Small Capitalization Equity Securities*

Investing in smaller companies may pose additional risks as it is often more difficult to value or dispose of small company stocks, more difficult to obtain information about smaller companies, and the prices of their stocks may be more volatile than stocks of larger, more established companies. Clients should have a long-term perspective and, for example, be able to tolerate potentially sharp declines in value.

### Debt Securities (Bonds)

Issuers use debt securities to borrow money. Generally, issuers pay investors periodic interest and repay the amount borrowed either periodically during the life of the security and/or at maturity. Alternatively, investors can purchase other debt securities, such as zero coupon bonds, which do not pay current interest, but rather are priced at a discount from their face values and their values accrete over time to face value at maturity. The market prices of debt securities fluctuate depending on such factors as interest rates, credit quality, and maturity. In general, market prices of debt securities decline when interest rates rise and increase when interest rates fall. The longer the time to a bond's maturity, the greater its interest rate risk.

Certain additional risk factors relating to debt securities include:

#### Reinvestment Risk

When interest rates are declining, investors have to reinvest their interest income and any return of principal, whether scheduled or unscheduled, at lower prevailing rates.

#### Inflation Risk

Inflation causes tomorrow's dollar to be worth less than today's; in other words, it reduces the purchasing power of a bond investor's future interest payments and principal, collectively known as "cash flows." Inflation also leads to higher interest rates, which in turn leads to lower bond prices.

#### Interest Rate and Market Risk

Debt securities may be sensitive to economic changes, political and corporate developments, and interest rate changes. Investors can also expect periods of economic change and uncertainty, which can result in increased volatility of market prices and yields of certain debt securities. For example, prices of

these securities can be affected by financial contracts held by the issuer or third parties (such as derivatives) relating to the security or other assets or indices.

#### Call Risk

Debt securities may contain redemption or call provisions entitling their issuers to redeem them at a specified price on a date prior to maturity. If an issuer exercises these provisions in a lower interest rate market, the account would have to replace the security with a lower yielding security, resulting in decreased income to investors.

Usually, a bond is called at or close to par value. This subjects investors that paid a premium for their bond to a risk of lost principal. In reality, prices of callable bonds are unlikely to move much above the call price if lower interest rates make the bond likely to be called.

#### Credit Risk

If the issuer of a debt security defaults on its obligations to pay interest or principal or is the subject of bankruptcy proceedings, the account may incur losses or expenses in seeking recovery of amounts owed to it.

#### Liquidity and Valuation Risk

There may be little trading in the secondary market for particular debt securities, which may affect adversely the account's ability to value accurately or dispose of such debt securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of debt securities.

It may be possible to reduce the risks described above through diversification of the client's portfolio and by credit analysis of each issuer, as well as by monitoring broad economic trends and corporate and legislative developments, but there can be no assurance that we will be successful in doing so. Credit ratings for debt securities provided by rating agencies reflect an evaluation of the safety of principal and interest payments, not market value risk. The rating of an issuer is a rating agency's view of past and future potential developments related to the issuer and may not necessarily reflect actual outcomes. There can be a lag between the time of developments relating to an issuer and the time a rating is assigned and updated.

#### *Securities with Equity and Debt Characteristics*

Apriem Advisors may invest in securities for client accounts that have a combination of equity and debt characteristics. These securities may at times behave more like equity than debt or vice versa. Some types of convertible bonds, preferred stocks or other preferred securities automatically convert into common stocks or other securities at a stated conversion ratio and some may be subject to redemption at the option of the issuer at a predetermined price. These securities, prior to conversion, may pay a fixed rate of interest or a dividend. Because convertible securities have both debt and equity characteristics, their values vary in response to many factors, including the values of the securities into which they are convertible, general market and economic conditions, and convertible market valuations, as well as changes in interest rates, credit spreads and the credit quality of the issuer.

These securities may include hybrid securities, which also have equity and debt characteristics. Such securities are normally at the bottom of an issuer's debt capital structure. As such, they may be more sensitive to economic changes than more senior debt securities. Investors may also view these securities as more equity-like by the market when the issuer or its parent company experience financial problems.

The prices and yields of nonconvertible preferred securities or preferred stocks generally move with changes in interest rates and the issuer's credit quality, similar to the factors affecting debt securities. Apriem Advisors will treat nonconvertible preferred securities as debt for asset allocation purposes.

### *Reverse Convertible Notes (RCN)*

Apriem Advisors may utilize RCNs in client portfolios. When an investor purchases an RCN, they are receiving a yield-enhanced bond tied to the price of the issuer's underlying equity. The investor does not own the underlying equity and is unable to participate in any upside appreciation from it. Instead, the issuer receives a put option on the underlying equity in exchange for making higher coupon payments during the life of the note. The investor is speculating that the value of the underlying equity will remain stable or go up, while the issuer is hedging against a falling equity price.

In the best-case scenario, the value of the underlying equity stays above a pre-determined price or rises, and the investor receives a high coupon for the life of the investment and the return of the full principal in cash at maturity. In the worst-case scenario, the value of the underlying equity drops below the pre-determined price, and the issuer pays back the investor's principal in the form of the depreciated equity, resulting in a loss of some or all of the investor's principal (offset only partially by the monthly or quarterly interest payments received).

An RCN might make sense for an investor who wants a higher stream of current income than is currently available from other bonds or bank products. However, in exchange for these higher yields, investors in RCNs take on significantly greater risk of the loss of all or some of their principal.

### *Exchange-Traded Funds (ETFs)*

An ETF is a type of Investment Company (usually, an open-end fund or unit investment trust) containing a basket of stocks. Typically, the objective of an ETF is to achieve returns similar to a particular market index, including sector indexes. An ETF is similar to an index fund in that it will primarily invest in securities of companies that are included in a selected market. Unlike traditional mutual funds, which can only be redeemed at the end of a trading day, ETFs trade throughout the day on an exchange. Like stock mutual funds, the prices of the underlying securities and the overall market may affect ETF prices. Similarly, factors affecting a particular industry segment may affect ETF prices that track that particular sector.

Leveraged ETFs seek to deliver multiples of the performance of the index or benchmark they track. Some ETFs are "inverse" or "short" funds, meaning that they seek to deliver the opposite of the performance of the index or benchmark they track. Some funds are both short and leveraged, meaning that they seek to achieve a return that is a multiple of the inverse performance of the underlying index.

Most leveraged and inverse ETFs “reset” daily, meaning that they are designed to achieve their stated objectives on a daily basis. Due to the effect of compounding, their performance over longer periods of time can differ significantly from the performance (or inverse of the performance) of their underlying index or benchmark during the same period of time. This effect is magnified by the use of leverage. Therefore, inverse and leveraged ETFs that are reset daily typically are unsuitable for retail investors who plan to hold them for longer than one trading session, particularly in volatile markets. Apriem Advisors may make use of leveraged inverse ETFs as a hedge for clients with significant exposure to a particular asset class, such as equities, and may hold these securities for longer than a few days at a time. We may choose a leveraged inverse ETF rather than an unleveraged inverse ETF because it allows us to allocate less capital to the hedge. There is uncertainty about the effectiveness of using a leveraged inverse ETF as a hedge over a long holding period.

### *Closed-end Fund*

Closed-end funds do not continually offer their shares for sale. Rather, they sell a fixed number of shares at one time, after which the shares typically trade on a secondary market, such as the New York Stock Exchange or the NASDAQ Stock Market. Risk factors pertaining to closed-end funds vary from fund to fund. The following list of risk factors provides a review of those associated with generalized closed-end fund investing. Not every risk factor in this list will pertain to each closed-end fund. In addition to the risks described above in **Mutual Funds**, closed-end funds are subject to the following risks:

#### *Valuation Risk*

Common shares may trade above (a premium) or below (a discount) the net asset value (NAV) of the trust/fund’s portfolio. At times, discounts could widen or premiums could shrink, which could either dilute positive performance or compound negative performance. There is no assurance that discounted funds will appreciate to their NAV.

#### *Fluctuating Dividends in Actively Managed Portfolios*

The composition of the trust/fund’s portfolio could change, which, all else being equal, could cause a reduction in dividends paid to common shares. Certain closed-end funds invest in common stocks. There is no guarantee of dividends from these common stocks. Fluctuations in dividend levels over time, up and down, are to be expected.

### *Obligations Backed by the "Full Faith and Credit" of the U.S. Government*

U.S. government obligations include the following types of securities:

#### *U.S. Treasury Securities*

U.S. Treasury securities include direct obligations of the U.S. Treasury, such as Treasury bills, notes, and bonds. For these securities, the U.S. government unconditionally guarantees the payment of principal and interest, resulting in the highest possible credit quality. Fluctuations in interest rates subject U.S. Treasury securities to variations in market value. However, they are paid in full when held to maturity.

### *Federal Agency Securities*

Certain U.S. government agencies and government-sponsored entities guarantee the timely payment of principal and interest with the backing of the full faith and credit of the U.S. government. Such agencies and entities include The Federal Financing Bank (FFB), the Government National Mortgage Association (Ginnie Mae), the Veterans Administration (VA), the Federal Housing Administration (FHA), the Export-Import Bank (Exim Bank), the Overseas Private Investment Corporation (OPIC), the Commodity Credit Corporation (CCC) and the Small Business Administration (SBA).

### *Other Federal Agency Obligations*

Additional federal agency securities neither are direct obligations of, nor guaranteed by, the U.S. government. These obligations include securities issued by certain U.S. government agencies and government-sponsored entities. However, they generally involve some form of federal sponsorship: some operate under a government charter; specific types of collateral back some; the issuer's right to borrow from the Treasury supports some; and only the credit of the issuing government agency or entity supports others. These agencies and entities include, but are not limited to the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and the Tennessee Valley Authority and Federal Farm Credit Bank System.

### *Municipal Bonds*

Municipal bonds are debt obligations generally issued to obtain funds for various public purposes, including the construction of public facilities. Municipal bonds pay a lower rate of return than most other types of bonds. However, because of a municipal bond's tax-favored status, investors should compare the relative after-tax return to the after-tax return of other bonds, depending on the investor's tax bracket. Investing in municipal bonds carries the same general risks as investing in bonds in general. Those risks include interest rate risk, reinvestment risk, inflation risk, market risk, call or redemption risk, credit risk, and liquidity and valuation risk. Investing in municipal bonds carries risk unique to these types of bonds, which may include:

#### *Legislative Risk*

Legislative risk includes the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income.

#### *Tax-Bracket Changes*

Municipal bonds generate tax-free income, and therefore pay lower interest rates than taxable bonds. Investors who anticipate a significant drop in their marginal income-tax rate may benefit from the higher yield available from taxable bonds.

#### *Liquidity Risk*

The risk that investors may have difficulty finding a buyer when they want to sell and may be forced to sell at a significant discount to market value. Liquidity risk is greater for thinly traded securities such as lower-rated bonds, bonds that were part of a small issue, bonds that have recently had their credit rating downgraded or bonds sold by an infrequent issuer. Municipal bonds may be less liquid than other bonds.

### *Credit Risk*

Credit risk includes the risk that a borrower will be unable to make interest or principal payments when they are due and therefore default. To reduce investor concern, insurance policies that guarantee repayment in the event of default back many municipal bonds.

### *Municipal Bonds of a Particular State*

Municipal bonds are debt obligations generally issued to obtain funds for various public purposes, including the construction of public facilities. Securities issued by California municipalities are more susceptible to factors adversely affecting issuers of California securities. For example, in the past, California voters have passed amendments to the state's constitution and other measures that limit the taxing and spending authority of California governmental entities, and future voter initiatives may adversely affect California municipal bonds.

### *Inflation-indexed Bonds*

Apriem Advisors may invest for client accounts in inflation-indexed bonds issued by governments, their agencies or instrumentalities and corporations. The principal amount of an inflation-indexed bond adjusts to changes in the level of the consumer price index. In the case of U.S. Treasury inflation-indexed bonds, there is a guarantee on repayment of the original bond principal upon maturity (as adjusted for inflation). Therefore, the principal amount of such bonds cannot fall below par even during a period of deflation. However, there is no guarantee on the current market value of these bonds so they fluctuate with the rise and fall of yields. The interest rate for inflation-indexed bonds is fixed at issuance as a percentage of this adjustable principal. Accordingly, the actual interest income may both rise and fall as the principal amount of the bonds adjusts in response to movements of the consumer price index. For example, typically interest income would rise during a period of inflation and fall during a period of deflation.

### *Real Estate Investment Trusts*

Securities issued by real estate investment trusts (REITs) primarily invest in real estate or real estate-related loans. Equity REITs own real estate properties, while mortgage REITs hold construction, development and/or long-term mortgage loans. Changes in the value of the underlying property of the trusts, the creditworthiness of the issuer, property taxes, interest rates, tax laws, and regulatory requirements, such as those relating to the environment all can affect the values and liquidity of REITs. Both types of REITs are dependent upon management skill, the cash flows generated by their holdings, the real estate market in general, and the possibility of failing to qualify for any applicable pass-through tax treatment or failing to maintain any applicable exemptive status afforded under relevant laws.

### *Master Limited Partnerships (MLPs)*

MLPs are publicly traded partnerships that trade mainly on the New York Stock Exchange and/or the NASDAQ, the same as stocks. With a few exceptions, MLPs hold and operate assets related to the transportation and storage of energy (certain MLPs may have commodity risk). Most publicly traded companies are corporations. Corporate earnings are usually taxed twice. The business entity is taxed on any money it makes and then shareholders are taxed on the earnings the company distributes to them.

In the 1980s, Congress allowed public trading of certain types of companies as partnerships instead of as corporations. The main advantage a partnership has over a corporation is that partnerships are “pass through” entities for tax purposes. This means that the company does not pay any tax on its earnings. Distributions are still taxed, but this avoids the problem of double taxation that most publicly traded companies face. Congress requires that any company designated as an MLP has to produce 90% of its earnings from “qualified resources” (natural resources and real estate). Most MLPs are involved in energy infrastructure, i.e. things like pipelines. MLPs are required to pay minimum distributions to limited partners. A contract establishes the payments, so distributions are predictable. Otherwise, the shareholders could find the company in breach of contract.

In addition to general business risks, MLPs bear the following risks:

#### Risk of Regulation or Change

The main advantage of an MLP is its tax-advantaged status under the current Internal Revenue Code. Therefore, changes in the tax code resulting in the loss of its preferential treatment could significantly affect the viability of MLP investments.

#### Interest Rate Risk

It is commonly thought that MLPs perform better when interest rates are low, making their yield higher in relation to the safest investments, such as Treasury bills and securities that are guaranteed by the U.S. government. Consequently, MLPs may perform better during periods of declining or relative low interest rates and more poorly during periods of rising or high interest rates.

#### Tax Risk

MLPs are pass-through entities, passing earnings through to the limited partners. Investors must be aware that there are potentially significant tax implications of investing in MLPs and they should consult with their tax advisor before investing in these securities. For example, income allocated to organizations that are exempt from federal income tax, including IRAs and other retirement plans, may be allocated unrelated business taxable income from a master limited partnership and this income could be taxable to them.

#### Investing Outside the U.S.

Investing outside the United States may involve additional risks of foreign investing. These risks may include currency controls and fluctuating currency values, and different accounting, auditing, financial reporting, disclosure, and regulatory and legal standards and practices. Additional factors may include changing local, regional, and global economic, political, and social conditions. Further, expropriation, changes in tax policy, greater market volatility, different securities market structures, and higher transaction costs can be contributors. Finally, various administrative difficulties, such as delays in clearing and settling portfolio transactions or in receiving payment of dividends can also lead to additional risk.



Investments in developing countries can further heighten the risks described above. A developing country may be in the earlier stages of its industrialization cycle with a low per capita gross domestic product (“GDP”) and a low market capitalization to GDP ratio relative to those in the United States and the European Union. Historically, the markets of developing countries have been more volatile than the markets of developed countries.

### American Depositary Receipts (ADRs)

An ADR is a stock that trades in the United States but represents a specified number of shares in a foreign corporation. Investors buy and sell ADRs on American markets just like regular stocks. Banks and brokerage firms issue/sponsor ADRs. ADRs are subject to additional risks of investing in foreign securities, including, but not limited to, less complete financial information available about foreign issuers, less market liquidity, more market volatility, and political instability. In addition, currency exchange-rate fluctuations affect the U.S. dollar-value of foreign holdings. Some ADRs and ordinary shares of foreign securities pay dividends, and many foreign countries impose dividend withholding taxes up to 30%. Depending on a custodian’s ability to reclaim any withheld foreign taxes on dividends, taxable accounts may be able to recoup a portion of these taxes by use of the foreign tax credit. However, tax-exempt accounts, to the extent they pay any foreign withholding taxes, may not be able to utilize the foreign tax credit. Therefore, investors may be unable to recover any foreign taxes withheld on dividends of foreign securities or ADRs.

### Cash and Cash Equivalents

Cash and cash equivalents are the most liquid of investments. Cash and cash equivalents are considered very low-risk investments meaning, there is little risk of losing the principal investment. Typically, low risk also means low return and the interest an investor can earn on this type of investment is low relative to other types of investing vehicles.

## **ITEM 9 - DISCIPLINARY INFORMATION**

Apriem Advisors and our personnel seek to maintain the highest level of business professionalism, integrity, and ethics. Neither Apriem Advisors nor our personnel have any disciplinary information to disclose under this item.

## **ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### **Dual Registration as Insurance Agency**

Apriem Advisors is also a licensed insurance agency in California doing business as Apriem Insurance Services (license number 0D94551). Apriem Advisors is primarily devoted to our investment advisory activities. However, at times insurance contracts are utilized as a risk management tool in particular family situations. Some employees of Apriem Advisors are licensed as insurance agents of Apriem Insurance Services and other unaffiliated insurance companies. See **Other Compensation We Receive** under **Item 5 – Fees and Compensation**, for details about the compensation we receive from insurance recommendations.

## ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

### Code of Ethics

Apriem Advisors believes that we owe clients the highest level of trust and fair dealing. As part of our fiduciary duty, we place the interests of our clients ahead of the interests of the firm and our personnel. We have adopted a Code of Ethics that emphasizes the high standards of conduct that Apriem Advisors seeks to observe. Apriem Advisors personnel are required to conduct themselves with integrity at all times and follow the principles and policies detailed in our Code of Ethics.

Apriem Advisors' Code of Ethics attempts to address specific conflicts of interest that either we have identified or that could likely arise. Apriem Advisors personnel are required to follow clear guidelines from the Code of Ethics in areas such as gifts and entertainment, other business activities, prohibitions of insider trading, and adherence to applicable securities laws.

Apriem Advisors will provide a complete copy of the Code of Ethics to any client or prospective client upon request.

### Personal Trading Practices

Individuals who make securities recommendations to clients, or who have access to nonpublic information regarding any clients' purchase or sale of securities, are subject to personal trading policies governed by our Code of Ethics. Apriem Advisors or our personnel may trade in securities for our own accounts. The securities we trade in may be the same securities we recommend to clients, or they may be different securities that we do not feel are appropriate for clients. This includes related securities (e.g., warrants, options, or futures). A conflict of interest could arise when Apriem Advisors or our personnel trade in the same securities as clients. We may have an incentive to take investment opportunities from clients for our own benefit, favor our personal trades over client transactions when allocating trades, or to use the information about the transactions we intend to make for clients to our personal benefit by trading ahead of clients.

Our policies to address these conflicts include the following:

1. The client receives the opportunity to act on investment recommendations prior to and in preference to accounts of Apriem Advisors and our personnel.
2. Apriem Advisors prohibits trading in a manner that takes personal advantage of our knowledge of client transactions or price movements caused by client transactions
3. If we wish to purchase or sell the same security as we recommend or take action to purchase or sell for a client, we may trade in a combined order with clients; otherwise, we may generally not trade until 24 hours after client trades were executed in a particular security.

4. Pre-clearance is required on certain personal trades of our personnel.
5. Apriem Advisors requires our personnel to report personal securities transactions on a quarterly basis. We get duplicate statements of employees' brokerage accounts.
6. Conflicts of interest also may arise when Apriem Advisors personnel have access to Limited Offerings or IPOs, including private placements or public or private offerings of interests in limited partnerships or any thinly traded securities, as a result of their position with Apriem Advisors. Given the inherent potential for conflict, Limited Offerings and IPOs demand extreme care. Apriem Advisors' personnel are prohibited from purchasing or participating in IPOs and are required to obtain pre-approval from our Chief Compliance Officer before trading in Limited Offerings.
7. Because these policies are intended to protect the interests of clients, we may make exceptions where we feel clients would not be harmed.

#### Aggregation with Client Orders

Apriem Advisors may aggregate orders for clients in the same securities in an effort to seek best execution, negotiate more favorable commission rates, and/or allocate differences in prices, commissions, and other transaction costs equitably among our clients. These are benefits of aggregating orders that we might not obtain if we placed those orders independently.

On occasion, Apriem Advisors may aggregate trades in like securities among client accounts with accounts of Apriem Advisors and our personnel. This presents a potential conflict of interest as we may have an incentive to allocate more favorable executions to our own accounts or the accounts of our personnel. Our policies for aggregating trades are described under ***Aggregation and Allocation of Transactions*** in ***Item 12***.

#### Clients Having an Ownership Interest

Certain persons, who are existing Apriem Advisors clients, have a non-controlling, passive ownership interest in Apriem Advisors. In the performance of our investment advisory and management services, Apriem Advisors makes no distinction between clients who have such an ownership interest and any other clients. Apriem Advisors' client relationships and services are at all times managed in accordance with the Apriem Advisors Code of Ethics for the benefit of all clients. Nevertheless, by reason of a non-controlling ownership interest, a particular client may, as a practical matter, from time to time have the opportunity for access to Apriem Advisors, our investment professionals and staff to a degree different from that available to other clients. In these circumstances, such a client may be advantaged as to support and administrative services in comparison to clients having no ownership position. Such an advantage, however, is unrelated to the performance of investment advisory and management services by Apriem Advisors for all our clients.

## ITEM 12 - BROKERAGE PRACTICES

### The Custodian and Brokers We Use

Clients open one or more accounts in their own name at an independent qualified custodian (generally a broker-dealer, bank, trust company, or other financial institution). Apriem Advisors requires that clients use Charles Schwab & Co., Inc. ("Schwab") or Scottrade, Inc. ("Scottrade"), registered broker-dealers, members SIPC, as the qualified custodian (the "Custodians"). We are independently owned and operated, and unaffiliated with the Custodians. The Custodians will hold client assets in a brokerage account and buy and sell securities when we instruct them to.

By requiring clients to use the Custodians, Apriem Advisors believes we may be able to more effectively manage the client's portfolio, achieve favorable execution of client transactions, and overall lower the costs to the portfolio. Clients may not direct Apriem Advisors to place trades through any outside brokers. Not all investment advisers require their clients to trade through specific brokerage firms. Occasionally, Apriem Advisors may place trades for client accounts held at the Custodians with a different broker-dealer (see ***Client Brokerage and Custody Costs***, below).

#### How We Select Brokers/Custodians

We seek to recommend a custodian/broker who will hold client assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others:

1. Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
2. Capability to execute, clear, and settle trades (buy and sell securities for client accounts)
3. Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
4. Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds, etc.)
5. Availability of investment research and tools that assist us in making investment decisions
6. Quality of services
7. Competitiveness of the price of those services (commission rates, other fees, etc.) and willingness to negotiate the prices
8. Reputation, financial strength, and stability
9. Prior service to Apriem Advisors and our other clients
10. Availability of other products and services that benefit us, as discussed below (see ***Products and Services Available to Us From Schwab***)

#### Client Brokerage and Custody Costs

For our clients' accounts that the Custodians maintain, the Custodians generally do not charge separately for custody services. However, the Custodians receive compensation by charging

commissions or other fees on trades that it executes or that settle into clients' custodial accounts. In particular, Schwab's commission rates applicable to our client accounts were negotiated based on the condition that our clients collectively maintain a total of at least \$10 million of their assets in accounts at Schwab. This commitment benefits our clients because the overall commission rates they pay are lower than they would be otherwise.

In addition to commissions, the Custodians charge a flat dollar amount as a "prime broker" or "trade away" fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into a client's custodial account. These fees are in addition to the commissions or other compensation the client pays the executing broker-dealer. Because of this, in order to minimize trading costs, we have the client's Custodian execute most trades for client accounts. We have determined that having the Custodians execute most trades is consistent with our duty to seek "best execution" of client trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see ***How We Select Brokers/Custodians***).

#### *Products and Services Available to Us from Custodians*

The description below applies specifically to the products and services available through Schwab, the primary custodian used for clients. We may receive similar benefits from Scottrade. Schwab Advisor Services™ (formerly called Schwab Institutional®) is Schwab's business serving independent investment advisory firms like us. They provide Apriem Advisors and our clients with access to their institutional brokerage, trading, custody, reporting, and related services, many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts; others help us manage and grow our business. Schwab's support services generally are available on an unsolicited basis (we don't have to request them) and at no charge to us as long as our clients collectively maintain a total of at least \$10 million of their assets in accounts at Schwab. If our clients collectively have less than \$10 million in assets at Schwab, Schwab may charge us quarterly service fees.

Following is a more detailed description of Schwab's support services:

#### *Services That Benefit Our Clients*

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

#### *Services That May Not Directly Benefit Our Clients*

Schwab also makes available to us other products and services that benefit us but may not directly benefit our clients or their accounts. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may use this research to service all or a substantial number of our clients' accounts,

including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

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

### *Services That Generally Benefit Only Us*

Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

1. Educational conferences and events
2. Consulting on technology, compliance, legal, and business needs
3. Publications and conferences on practice management and business succession
4. Access to employee benefits providers, human capital consultants, and insurance providers

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services, reimburse Apriem Advisors for the cost of the conference or related expenses, or pay all or a part of a third party's fees. Schwab may also provide us with other benefits, such as occasional business entertainment of our personnel.

### *Our Interest in Schwab's Services*

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We do not have to pay for Schwab's services so long as our clients collectively keep a total of at least \$10 million of their assets in accounts at Schwab. Beyond that, these services are not contingent upon us committing any specific amount of business to Schwab in trading commissions. The \$10 million minimum may give us an incentive to recommend that clients maintain accounts with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on our clients' interest in receiving the best value in custody services and the most favorable execution of their transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients.

Apriem Advisors primarily supports our selection of Schwab by the scope, quality, and price of Schwab's services (see ***How We Select Brokers/Custodians***, above) and not Schwab's services that benefit only us. As of the date of this brochure we had over \$400 million in client assets under management, and we do not believe that requiring our clients to collectively maintain at least \$10 million of those assets at Schwab in order to avoid paying Schwab quarterly service fees presents a material conflict of interest.

## Brokerage for Client Referrals

### Schwab Advisor Network

Apriem Advisors receives client referrals from Schwab through our participation in Schwab Advisor Network® (“the Service”). Schwab designed the Service to help investors find an independent investment advisor. Schwab is a broker-dealer independent of, and unaffiliated with, Apriem Advisors. Schwab does not supervise us and has no responsibility for our management of clients’ portfolios or other advice or services we provide. Apriem Advisors pays Schwab fees to receive client referrals through the Service. Our participation in the Service may raise potential conflicts of interest, as described below.

### *Participation Fee*

Apriem Advisors pays Schwab a Participation Fee on all referred clients’ accounts custodied at Schwab and a Non-Schwab Custody Fee on all accounts maintained at, or transferred to, another custodian. The Participation Fee we pay is a percentage of the fees the client pays to us, or a percentage of the value of the assets in the client’s account subject to a minimum Participation Fee. Apriem Advisors pays Schwab the Participation Fee as long as the referred client’s account remains in custody at Schwab. Schwab bills us the Participation Fee quarterly and Schwab may increase, decrease, or waive the fee from time to time. Apriem Advisors pays the Participation Fee and not the client. We have agreed not to charge clients referred through the Service fees or costs greater than the fees or costs we normally charge to clients with similar portfolios who were not referred through the Service.

### *Non-Schwab Custody Fee*

Apriem Advisors generally pays Schwab a Non-Schwab Custody Fee if Schwab does not maintain custody of a referred client’s account, or if we transfer assets in the account away from Schwab. This Fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees Apriem Advisors would generally pay in a single year. This means we have an incentive to recommend that referred clients’ maintain custody of their accounts at Schwab.

Schwab bases the Participation Fee and Non-Schwab Custody Fee on assets in accounts of our clients referred by Schwab and those referred clients’ family members living in the same household. This means that we have incentive to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit our fees directly from their accounts.

## Aggregation and Allocation of Transactions

Apriem Advisors places trades on our client’s behalf in the following ways:

1. Block trades - Apriem Advisors may use block trades for buying securities in many accounts or selling securities over many accounts holding that particular security. In this way, all clients

participating in the block trade get the same execution price and, in some instances, more favorable pricing due to larger orders sometimes taking precedence over smaller orders on the exchanges. Block trades are allocated by either percentage allocation per account or by round-lot allocation per account that approximates the percentage allocation method. In cases where we are trading the same security for clients held at multiple custodians, we will implement a trading rotation or other reasonable process in an effort to equitably allocate trades among clients and not favor any group of clients. Clients at one custodian may get different prices than clients at another custodian.

Example:

Percentage Allocation – Buy of 10,000 shares of ABC stock @ \$20.00/share

Each account receives allocation of 2% weighting of portfolio value. If portfolio value equals \$100,000, account would receive \$2,000 of ABC stock or 100 shares.

Round-lot allocation – Buy of 10,000 shares of ABC stock @ \$20.00/share

Each account receives allocation of 2% weighting of portfolio value. If portfolio value equals \$80,000, account would be entitled to \$1,600 of ABC stock or 80 shares. Apriem Advisors would typically round up purchase to round lot of 100 shares in this instance.

In many cases, Apriem Advisors allocates varying percentages to different accounts based on a number of factors including client preferences, account risk parameters (larger percentage allocations given to more aggressive accounts), current portfolio allocation and make-up, previously purchased shares in the same security, and risk characteristics of the underlying security.

Block trades that are partially executed or not completely filled are allocated by the same method as explained above on a pro-rated basis. Some accounts may be excluded on partial fills if the amount of the purchase transaction would result in too small a holding and pose liquidity problems on future selling of that security.

Accounts are chosen to participate in particular security transactions based upon the best judgment of the trading team, account risk profiles, client preferences and parameters, current portfolio make-up, previously owned shares in the same security, and risk characteristics of the underlying security.

Accounts participating in the block transaction will pay their individual transaction costs for the trade.

2. Individual Trades per Account Level – In customized portfolios, Apriem Advisors will often place trades on an individual account level basis rather than by block trading. We believe that to truly provide a customized approach to each client, every account should be evaluated, monitored,



analyzed and structured one-by-one. While this may take more time and more man-hours to accomplish, it is what Apriem Advisors believes in and promises to each client. The following are additional reasons why we may trade accounts individually or in addition to block trading means:

- a. Client preferences and restrictions (e.g., no tobacco stocks)
- b. Client risk guidelines and parameters
- c. Client tax situations
- d. Varying size of accounts
- e. Low cost-basis holdings
- f. Concentrated stock positions
- g. Large cash weightings at time of acceptance of account
- h. Dollar-cost averaging in or out of market
- i. Multiple client accounts with different objectives
- j. Covered stock positions

## **ITEM 13 - REVIEW OF ACCOUNTS**

### **Account Reviews**

We monitor securities in client portfolios on a continuous basis and review all client accounts on a rolling schedule, at minimum quarterly. The Chief Investment Officer and Financial Analyst conduct account reviews. We typically offer to meet with clients on a quarterly basis to review the client's portfolio, and on an annual basis to review the client's financial plan and overall strategy.

### **Account Reporting**

Each client receives a written statement from the custodian that includes an accounting of all holdings and transactions in the account for the reporting period. Access to account information is also available to clients 24 hours a day through Schwab's web site. In addition, each quarter Apriem Advisors provides more detailed written reports to clients, generally including the client's quarterly fee statement, current asset allocation, portfolio performance, portfolio holdings, and other relevant reports.

## **ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION**

### **Custodian Support Products and Services**

We receive an economic benefit from our Custodians in the form of the support products and services they make available to us and other independent investment advisors. These products and services, how they benefit us, and the related conflicts of interest are described above (see **Item 12 – Brokerage Practices**). We do not base particular investment advice, such as buying particular securities for our clients, on the availability of these products and services to us.

## Due Diligence Expenses

Securities issuers may also pay directly or reimburse Apriem Advisors for costs, such as travel expenses and conference fees, relating to our due diligence review of the issuer's product. Accepting these payments/reimbursements could be a conflict of interest, particularly if the payments/reimbursements facilitate Apriem Advisors in ultimately recommending the product to our clients. Apriem Advisors accepts these payments on a case-by-case basis, subject to our internal practices, when we believe the payments do not hinder our ability to objectively evaluate the product. The availability or receipt of these payments/reimbursements is not a consideration for us in deciding whether or not to invest in a product.

## Solicitor Arrangements

If an unaffiliated solicitor introduces a client to Apriem Advisors, we may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements.

If an unaffiliated solicitor introduces a client to Apriem Advisors, that solicitor will disclose the nature of the solicitor relationship with Apriem Advisors at the time of the solicitation. In addition, the solicitor will provide each prospective client with a copy of this brochure, and a copy of the written disclosure statement from the solicitor to the client disclosing the terms and conditions of the arrangement between Apriem Advisors and the solicitor, including the compensation the solicitor will receive from Apriem Advisors. Apriem Advisors' referral payment arrangements with solicitors do not increase the total fees paid by the client. Solicitors are paid by Apriem Advisors and not by the referred client. The client pays the same amount of fees to Apriem Advisors as they would if they had dealt with Apriem Advisors directly.

For more information on client referrals and solicitation arrangements, see disclosure above under ***Brokerage for Client Referrals*** under Item 12 – ***Brokerage Practices*** section.

## ITEM 15 - CUSTODY

Apriem Advisors has limited custody of some of our clients' funds or securities when the clients authorize us to deduct our management fees directly from the client's account. Apriem Advisors is also deemed to have custody of clients' funds or securities when clients have standing authorizations with their custodian to move money from a client's account to a third-party ("SLOA") and under that SLOA authorize us to designate the amount or timing of transfers with the custodian. The SEC has set forth a set of standards intended to protect client assets in such situations, which we follow. An independent qualified custodian (generally a broker-dealer, bank, trust company, or other financial institution) holds clients' funds and securities – Apriem Advisors does not act as custodian for any client. Clients will receive statements directly from your qualified custodian at least quarterly. The statements will reflect the client's funds and securities held with the qualified custodian as well as any transactions that occurred in the account, including the deduction of Apriem Advisors' fee. Clients should carefully review the account statements you receive from your qualified custodian. When clients receive statements

from Apriem Advisors as well as from the qualified custodian, you should compare these two reports carefully. If you have any questions about your statements, you should contact us at the address or phone number on the cover of this brochure. Clients who do not receive your statements from your qualified custodian at least quarterly should also notify us.

## ITEM 16 - INVESTMENT DISCRETION

Apriem Advisors has full discretion to decide the specific security to trade, the quantity, and the timing of transactions for client accounts. Apriem Advisors will not contact clients before placing trades in their account, but clients will receive confirmations directly from the broker for any trades placed. Clients grant us discretionary authority in the contracts they sign with us. Clients also give us trading authority over their accounts when they sign the custodian paperwork.

However, certain client-imposed conditions may limit Apriem Advisors' discretionary authority, such as where the client prohibits transactions in specific security types. See also ***Tailored Services and Client Imposed Restrictions*** under ***Item 4***, above.

## ITEM 17 - VOTING CLIENT SECURITIES

### Proxy Voting

Apriem Advisors generally votes proxies for securities in managed accounts, unless that authority is retained by the client. In cases where Apriem Advisors is responsible for voting proxies on securities held in a client's account, Apriem Advisors has adopted policies and procedures in an effort to ensure that all votes are cast in the best interests of our clients and that the proper documentation is maintained relating to how the proxies were voted. Our policies and procedures are summarized as follows:

- Our guiding principle is to vote shares in the best interest of clients/beneficiaries and the value of the investment.
- We have retained a proxy voting vendor for proxy management and record keeping services and have adopted a third party research provider's proxy voting guidelines. Apriem Advisors reviews the vendor's proxy voting guidelines to confirm that they are consistent with our principles.
- Clients typically may not direct our vote for a particular solicitation in cases where Apriem Advisors otherwise has proxy voting responsibility.
- Apriem Advisors generally votes proxies in accordance with the recommendations of the third party vendor. If Apriem Advisors becomes aware of a conflict of interest on the part of the vendor relating to a proxy proposal, Apriem Advisors will review the proxy at issue and the voting recommendation to determine if the recommendation is consistent with Apriem Advisors' policy of voting in the best interests of clients and will make a decision on how to vote the proxy.

A complete copy of Apriem Advisors' current Proxy Voting Policies & Procedures is available to clients upon request. Clients may obtain information on how their proxies were voted by contacting Benjamin Lau at 949-253-8888.

### Class Actions

Class action solicitations for securities currently and/or previously held in client accounts are sent directly to the client. In cases where a client would like Apriem Advisors to file the class action on their behalf, we will first determine whether we believe that a filing is in the best interest of the client. If Apriem Advisors deems that participation in the class action is in the best interest of the client, Apriem Advisors will complete the necessary forms and submit the claim on the client's behalf. In many cases, Apriem Advisors can submit one claim covering all clients that would like to participate and whose assets are held with a particular custodian.

Apriem Advisors will typically not act to file a class action claim in the following instances:

1. when we believe that the potential award would be insignificant or *de minimis*;
2. when securities are held in the client's account at the direction of the client;
3. when securities are held in the client's account that were not purchased by Apriem Advisors;
4. when securities in a client's portfolio were held while not under Apriem Advisors' management;
- or
5. when securities held in an account are no longer under Apriem Advisors' management.

## **ITEM 18 - FINANCIAL INFORMATION**

Registered investment advisers are required in this item to provide clients with certain financial information or disclosures about the firm's financial condition. Apriem Advisors does not require the prepayment of more than \$1,200 in fees per client, six months or more in advance, and does not foresee any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.