



# SMH CAPITAL ADVISORS LLC

## Investment Advisory Services Brochure

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March 31, 2017

This Brochure provides information about the qualifications and business practices of SMH Capital Advisors LLC (“SMHCA” or “Firm”). If you have any questions about the contents of this brochure, please contact us at 817-569-7000. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

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

Additional information about SMHCA also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s website also provides information about any persons affiliated with SMHCA who are registered, or are required to be registered, as investment adviser representatives of SMHCA.

## **Item 1: Material Changes**

This section discusses any material changes to our Brochure since the date of our 2016 annual update to the Brochure which was March 30, 2016 through the date of our 2017 annual update which was March 31, 2017.

Material changes since March 30, 2016 are as follows:

Our firm is no longer affiliated with Miller-Green Financial Services, LLC, Edelman Financial Services, LLC, Sanders Morris Harris LLC, and HWG Insurance Agency, Inc. and is now affiliated with Kissinger Financial Services, LLC. Please refer to the section on Other Financial Industry Activities and Affiliations for more information on our affiliated companies.

**Currently, our Brochure may be requested by contacting Lisa Haley, Institutional Advisor, at 800-278-4308 or [lhaley@smhca.com](mailto:lhaley@smhca.com). Our Brochure is also available on our web site [www.smhca.com](http://www.smhca.com), also free of charge.**

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## **Item 2: Advisory Business**

### **History of SMH Capital Advisors LLC**

SMHCA is registered as an investment adviser with the SEC (File No. 801-54089). SMHCA is a wholly-owned subsidiary of Summer Wealth Management (SWM), which in turn is a wholly owned subsidiary of Lee Equity Partners, LLC (“LEP”). SMHCA, which was formerly Cummer/Moyers Capital Advisors, Inc. (“Cummer/Moyers”), was acquired by Sanders Morris Harris Group Inc. (“SMH”) in 2000. Cummer/Moyers was formed in 1996 by Jeffrey Cummer and Dwayne Moyers. Following the acquisition by SMH, the name was changed to SMHCA from Cummer/Moyers.

SMHCA is now wholly owned by Summer Wealth Management, LLC.

### **Investment Supervisory Services**

#### **Portfolio Management**

#### **Individual Account Management**

SMHCA offers discretionary portfolio management services primarily through three programs: (1) the Separately Managed Account Program (“SMA Program”); (2) the SMH Capital Investments Program (SMHCI Program) and (3) the Institutional Program. In all three programs, clients’ assets are invested in various securities, including, but not limited to equity securities including common and preferred stock, exchange-listed, over-the-counter, and foreign issuer securities; warrants; corporate debt securities; commercial paper; certificates of deposit; municipal securities; investment company securities, including mutual fund shares (including affiliated mutual funds); closed-end funds; Exchange Traded Funds; American Depository Receipts; Real Estate Investment Trusts; Publicly Traded Business Development Companies (“BDCs”); United States government and government agency securities; high yield corporate bonds; and collateralized mortgage obligations (“CMOs”). SMHCA’s methodology is the same for all three programs. Not all strategies are available in all three programs. Any differences in implementation are in the types of investments used to achieve the objectives of the strategy. Specific types of investments used to implement strategies are provided in the program descriptions below.

SMHCA invests client assets in securities that it deems to be consistent with clients’ stated investment objectives. SMHCA also can create a customized account that is different from the described strategy. Clients may impose reasonable restrictions on the management of their account. Restrictions must be provided in writing and included in the client’s written agreement with SMHCA. Restrictions are subject to SMHCA’s approval prior to accepting an account. When imposing restrictions, clients may request that particular securities or types of securities not be purchased, or that such securities are to be sold if held in the account. However, client cannot request that particular securities be purchased for the account. SMHCA reserves the right, in its sole discretion, to reject any account should clients request be unreasonable or overly restrictive conditions.

In performing its services, SMHCA shall not be required to verify any information received from the client or from the client’s other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify SMHCA if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising SMHCA’s previous recommendations and/or services.

A client or prospective client is under absolutely no obligation to engage SMHCA as the investment adviser for his/her employer sponsored retirement account. Rather, a client can continue to self-direct his/her retirement account at his/her employer. If the client determines that he/she would like SMHCA’s assistance, SMHCA shall charge a separate and additional advisory fee for its ongoing advisory services. The client will not incur this separate and additional advisory fee if he/she determines to continue to self-direct his/her account. As a result, any recommendation by SMHCA that a client engage SMHCA to manage his/her retirement account presents a conflict of interest since SMHCA shall derive an economic benefit

from such engagement. Again, a client is under absolutely no obligation to engage SMHCA as the investment adviser for his/her retirement account.

Sanders Morris Harris, LLC (“SMH”) will serve as the broker dealer for certain client advisory accounts. In such situations, SMHCA shall earn its advisory fee, and SMH shall receive separate transaction fees/commissions for effecting transactions, a portion of which transaction fees/commissions shall be remitted by SMH to representatives of SMHCA in their separate individual capacities as registered representatives of SMH. The transactions fees charged by SMH may be higher than those charged by other broker dealers. In addition, SMH, as well as SMHCA’s representatives, relative to commission mutual fund purchases, may also receive additional ongoing 12b-1 trailing commission compensation directly from the mutual fund company during the period that the client maintains the mutual fund investment. SMHCA’s Chief Compliance Officer, David Hunt, is available to address any questions that a client or prospective client may have regarding this conflict of interest.

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

Clients in the SMA program are traditionally high net worth clients who are introduced to SMHCA by a third-party or affiliated investment advisors. The third-party or affiliated advisor recommends that the client invest all or a portion of the client’s assets in an SMHCA Separately Managed Account.

SMHCA offers twelve individual strategies and six strategic allocations in the SMA Program: SMHCA High Income, SMHCA Socially Responsible High Income, SMHCA Diversified Income, SMHCA Socially Responsible Diversified Income, SMHCA AAA, SMHCA Total Return Income Unconstrained, SMHCA Concentrated Aggressive Growth, SMHCA Alternative Financial Services, SMHCA Tactical Equity, SMHCA Municipal Income, SMHCA Total Return Income and SMHCA Absolute Income.

Individual strategies are individual separately managed accounts managed to the model of the strategy. Clients may choose to allocate 100% of the account to an individual strategy or they may choose a strategic allocation, where portions of the account are allocated to create a blend of several individual strategies within one account.

Strategic allocations are accounts that include a blend of general target percentages of SMHCA individual strategies in the same account. Portions of the account are allocated to several individual strategies within one account. Strategic allocation options include: SMHCA Conservative Income and Growth, SMHCA Moderate Income and Growth, SMHCA High Income and Growth, SMHCA Growth, SMHCA Aggressive Growth, and SMHCA Tax Free and Growth.

To establish a new account in the SMA Program, a client must invest a minimum of \$200,000. A client must invest a minimum of \$5 million to participate in the SMHCA Total Return Income Unconstrained strategy. SMHCA may waive the minimum account size at its discretion.

### **Individual Strategies**

**SMHCA High Income:** Portfolios are managed with a target of 100% high yield corporate and convertible bonds (with residual cash). On rare occasions, investment grade bonds may be purchased that, while still rated above high yield, are trading as high yield securities in anticipation of downgrades to follow. This style is designed to provide a higher current yield and total return.

**SMHCA Socially Responsible High Income:** Portfolios are managed in the same way as the SMHCA High Income except that the SMHCA Socially Responsible High Income strategy will adhere to a socially responsible investment policy that prohibits owning any companies in the investment portfolio that derive more than 50% of their annual revenue from the following industries: alcohol, tobacco, gambling, weapons manufacturing or pornography.

**SMHCA Diversified Income:** To take advantage of the benefits of combining high yield with investment grade bonds, this strategy is designed to provide returns over time above investment grade indices with less risk than a pure high yield portfolio. Portfolios are managed to a target, at time of purchase, of 50% investment grade or AAA bonds and 50% high yield bonds (with residual cash). The AAA portion of the portfolio is comprised of Collateralized Mortgage Obligations (CMOs). CMOs are not rated by any of the rating agencies. SMHCA uses the rating for the underlying agency of the bonds to allocate these securities to the investment grade or AAA portion of the portfolio. The AAA bonds purchased will reflect the current credit rating of the United States government; subject to changes of upgrades or downgrades in ratings. SMHCA has the option of increasing the investment grade or AAA bond allocation to as high as 80%, at time of purchase, if it determines that the market dictates such a move.

**SMHCA Socially Responsible Diversified Income:** Portfolios are managed in the same way as the SMHCA Diversified Income except that the SMHCA Socially Responsible Diversified Income strategy will adhere to a socially responsible investment policy, for the high yield portion of the portfolio, that prohibits owning any companies in the investment portfolio that derive more than 50% of their annual revenue from the following industries: alcohol, tobacco, gambling, weapons manufacturing or pornography.

**SMHCA AAA:** Portfolios are 100% invested in AAA rated bonds (with residual cash). SMHCA may use Collateralized Mortgage Obligations (CMOs). CMOs are not rated by any of the rating agencies. SMHCA uses the rating for the underlying agency of the bonds to allocate these securities to the AAA policy of the portfolio. The AAA bonds purchased will reflect the current credit rating of the United States government; subject to changes of upgrades or downgrades in ratings. This style is designed to take advantage of yield spread differentials within the investment grade markets. This strategy is for clients seeking income and capital preservation.

**SMHCA Unconstrained Total Return Income:** To access this strategy via the SMA Program, clients must have a minimum of \$5,000,000. Portfolios consist of investment grade bonds, high yield bonds, dividend paying stocks, individual equities, and derivatives of individual securities, including call options. This strategy is geared for long-term growth from both income and capital appreciation over a 10 year period, or a full market cycle.

**SMHCA Total Return Income:** This strategy is geared for long-term growth from both income and capital appreciation over a 10 year period, or a full market cycle. Portfolios are invested in mutual funds. (See “Catalyst Funds” section for important disclosure information regarding the Catalyst Mutual Funds.)

**SMHCA Municipal Income:** This strategy is managed to a target of 100% municipal bonds with an objective of providing tax advantaged income. Portfolios are invested in closed-end funds and Exchange Traded Funds.

**SMHCA Tactical Equity:** This strategy is managed using proprietary technical indicators. Focusing primarily on the securities within the MSCI EAFE, MSCI Emerging Market Index, S&P 500, NASDAQ 100, Barclays Aggregate Bond and the BofA Merrill Lynch High Yield Index, technical indicators will dictate whether portfolios will be invested in either bond or equity based exchange traded funds.

**SMHCA Concentrated Aggressive Growth:** This strategy is managed using proprietary fundamental as well as technical indicators. Focusing primarily on securities traded on a national market exchange with market caps above 500 million. This is a concentrated portfolio; one position can make up to 33% of the account at the time of purchase.

**SMHCA Alternative Financial Services:** This strategy is managed to a 100% target in the non-traditional bank and insurance financial sectors. This strategy will focus on alternative asset managers, non-traditional lenders, mortgage services, business development companies and other financial sector participants. Portfolios will invest in individual equity positions.

**SMHCA Absolute Income:** The strategy intends to produce a high level of current income by investing in income oriented closed end funds trading at significant discounts from Net Asset Value, Business Development Companies trading at significant discounts from their reported NAV, Real Estate Investment Trusts, high yield corporate bonds trading at a discount from par, high dividend equity securities, and potentially restructurings and equity closed end mutual funds trading at a

discount to NAV. In the event that opportunities do not exist in manager's opinion, they may hold cash or money market equivalents or high quality fixed income ETF's with a duration of 5 years or less.

## **Strategic Allocations**

Strategic allocations are individual accounts that include a blend of general target percentages of SMHCA individual strategies in the same account. Portions of the account are allocated to several individual strategies within one account. Descriptions below contain the general target percentage allocated to each individual strategy within the client account. Clients should refer to the individual strategy descriptions above for a complete description of each how portion of the account will be managed.

**SMHCA Conservative Income and Growth:** 60% SMHCA Diversified Income, 30% SMHCA Tactical Equity, and 10% SMHCA Concentrated Aggressive Growth.

**SMHCA Moderate Income and Growth:** 60% SMHCA Total Return Income, 30% SMHCA Tactical Equity, and 10% SMHCA Concentrated Aggressive Growth.

**SMHCA High Income and Growth:** 60% SMHCA High Income, 30% SMHCA Tactical Equity, and 10% SMHCA Concentrated Aggressive Growth.

**SMHCA Growth:** 70% SMHCA Tactical Equity, 20% SMHCA Concentrated Aggressive Growth, and 10% SMHCA Alternative Financial Services.

**SMHCA Aggressive Growth:** 50% SMHCA Tactical Equity, 30% SMHCA Concentrated Aggressive Growth 20%, and SMHCA Alternative Financial Services.

**SMHCA Tax Free and Growth:** 60% SMHCA Municipal Income, 30% SMHCA Tactical Equity, and 10% SMHCA Concentrated Aggressive Growth.

## **SMH Capital Investments Program (SMHCI Program)**

For clients that would like to access strategies not offered through the SMA Program or for those clients who wish to access SMHCA strategies without the use of a third-party advisor or platform, the SMHCI Program is available in either a wrap fee arrangement (SMHCA Sponsored Wrap Program) or a non-wrap fee arrangement (SMHCA Un-Wrapped Program). For both the **SMHCA Sponsored Wrap Program** and the **SMHCA Un-Wrapped Program**, clients enter into a SMH Capital Investments Program Agreement with SMHCA. Clients wishing to participate in the SMHCI Program must utilize the custody and clearing services of Wells Fargo Clearing Services, LLC, ("WFCS") formerly known as First Clearing, LLC, ("FCC"). The minimum investment required to establish a program account depends on the selected strategy or strategic allocation as outlined on the SMHCI Program Agreement. SMHCA may waive the minimum account size at its discretion.

Generally speaking, a wrap fee is assessed on the value of a Client's assets under management by the investment adviser and is not dependent on the amount of trading in the account or the advice given in any particular time period. The client should be aware that lower fees for comparable services may be available in other SMHCA programs or from other sources including other investment advisers. Under a wrap program, the wrap program sponsor arranges for the investor participant or client to receive investment advisory services, the execution of securities brokerage transactions, custody and reporting services for a single specified fee. Participation in a wrap program may cost the participant more or less than purchasing such services separately. On an annual basis, SMHCA compares for reasonableness on a 3-year rolling basis, the fees associated with its SMHCI Program wrap fees against fees that would be charged on an unbundled basis. A wrap program is different from



when SMHCA provides services on an un-bundled basis, i.e. separate fees for investment advisory services and transactions. In a transaction based pricing arrangement, the broker dealer/custodian assesses a separate commission/transaction fee for each account transaction which is a cost incurred by the client in addition to the fee paid to the investment adviser for investment advisor services. All clients whose accounts are managed in conjunction with the SMHCA Sponsored Wrap Program, shall receive a separate wrap fee brochure discussing the terms and conditions for participation in the wrap program. When offering services in conjunction with the SMHCA Sponsored Wrap Program, SMHCA will not receive any portion of any transaction fees received by SMH. SMHCA's Chief Compliance Officer, David Hunt, is available to address any questions that a client may have regarding participation in the SMHCA wrap fee program.

Under the SMHCA Sponsored Wrap Program, the client's assets would be managed by us in the same manner as assets managed by us for our clients not in a wrap fee arrangement although this would be subject to your particular investment needs and objectives and we may have limited or minimal contact with you where the brokerage firm maintains the direct and primary relationship with you. You should understand that, depending upon the amount of the wrap fee charged, the number of securities transactions in your account, the value of custodial or other services you will receive under the arrangement, the amount of the wrap fee may or may not be less than the total cost for such services added together if you obtained them separately and therefore such arrangements may not be suitable for all clients based on the client's individual financial circumstances and investment goals.

### **SMHCA Sponsored Wrap Program**

SMHCA manages fourteen individual strategies and six strategic allocations in a wrap fee structure in the SMHCI Program.

Individual strategies are individual wrap fee accounts managed to the model of the strategy. Individual strategy options include: SMHCA Diversified Income, SMHCA Socially Responsible Diversified Income, SMHCA High Income, SMHCA Socially Responsible High Income, SMHCA Total Return Income, SMHCA Municipal Income, SMHCA Tactical Equity, SMHCA Concentrated Aggressive Growth, SMHCA Catalyst Allocation, SMHCA Absolute Income, and SMHCA Alternative Financial Services. Clients may choose to allocate 100% of the account to an individual strategy or they may choose a strategic allocation, where portions of the account are allocated to create a blend of several individual strategies within one account.

The following individual strategies are no longer available to new investors: SMHCA Growth, SMHCA Balanced Growth and SMHCA Balanced Growth & Bonds.

Strategic allocations are individual wrap fee accounts that include a blend of general target percentages of SMHCA individual strategies in the same account. Portions of the account are allocated to several individual strategies within one account. Strategic allocation options include: SMHCA Conservative Income and Growth, SMHCA Moderate Income and Growth, SMHCA High Income and Growth, SMHCA Growth, SMHCA Aggressive Growth, and SMHCA Tax Free and Growth.

The wrap fee for these individual strategies and strategic allocations include, among other costs, brokerage commissions and a portfolio administration fee. For more information about the wrap fee structure and the services included, please reference the SMHCA Part 2A Appendix 1 of Form ADV. Some Portfolios in these strategies may be implemented using mutual funds that are advised by or otherwise affiliated with SMHCA. SMHCA will purchase Class I shares when available or Class A shares at NAV.

### **Individual Strategies**

**SMHCA Diversified Income:** To take advantage of the benefits of combining high yield with investment grade bonds, this strategy is designed to provide returns over time above investment grade indices with less risk than a pure high yield portfolio. Portfolios are managed to a target, at time of purchase, of 50% investment grade or AAA bonds and 50% high yield bonds (with residual cash). The AAA portion of the portfolio is comprised of Collateralized Mortgage Obligations (CMOs). CMOs

are not rated by any of the rating agencies. SMHCA uses the rating for the underlying agency of the bonds to allocate these securities to the investment grade or AAA portion of the portfolio. The AAA bonds purchased will reflect the current credit rating of the United States government; subject to changes of upgrades or downgrades in ratings. SMHCA has the option of increasing the investment grade or AAA bond allocation to as high as 80%, at time of purchase, if it determines that the market dictates such a move.

**SMHCA Socially Responsible Diversified Income:** Portfolios are managed in the same way as the SMHCA Diversified Income except that the SMHCA Socially Responsible Diversified Income strategy will adhere to a socially responsible investment policy, for the high yield portion of the portfolio, that prohibits owning any companies in the investment portfolio that derive more than 50% of their annual revenue from the following industries: alcohol, tobacco, gambling, weapons manufacturing or pornography.

**SMHCA High Income:** Portfolios are managed with a target of 100% high yield corporate and convertible bonds (with residual cash). On rare occasions investment grade bonds may be purchased that, while still rated above high yield, are trading as high yield securities in anticipation of downgrades to follow. This style is designed to provide a higher current yield and total return.

**SMHCA Socially Responsible High Income:** Portfolios are managed in the same way as the High Income except that the Socially Responsible High Income product will adhere to a socially responsible investment policy that prohibits owning any companies in the investment portfolio that derive more than 50% of their annual revenue from the following industries: alcohol, tobacco, gambling, weapons manufacturing and pornography.

**SMHCA Total Return Income:** This strategy is geared for long-term growth from both income and capital appreciation over a 10 year period, or a full market cycle. Portfolios are invested in mutual funds. (See “Catalyst Funds” section for important disclosure information regarding the Catalyst Mutual Funds.)

**SMHCA Municipal Income:** This strategy is managed to a target of 100% municipal bonds with an objective of providing tax advantaged income. Portfolios are invested in closed-end funds and Exchange Traded Funds.

**SMHCA Tactical Equity:** This strategy is managed using proprietary technical indicators. Focusing primarily on the securities within the MSCI EAFE, MSCI Emerging Market Index, S&P 500, NASDAQ 100, Barclays Aggregate Bond and the BoFA Merrill Lynch High Yield Index, technical indicators will dictate whether portfolios will be invested in either bond or equity based exchange traded funds.

**SMHCA Concentrated Aggressive Growth:** This strategy is managed using proprietary fundamental as well as technical indicators. Focusing primarily on securities traded on a national market exchange with market caps above 500 million. This is a concentrated portfolio; one position can make up to 33% of the account at the time of purchase.

**SMHCA Catalyst Allocation:** This strategy is designed to provide a diversified portfolio utilizing the Catalyst Fund family. (See “Catalyst Funds” section for important disclosure information regarding the Catalyst Mutual Funds.)

**SMHCA Alternative Financial Services:** This strategy is managed to a 100% target in the non-bank and insurance financial sectors. This strategy will focus on alternative asset managers, non-traditional lenders, mortgage services, business development companies and other financial sector participants. Portfolios will invest in individual equity positions.

**SMHCA Absolute Income:** The strategy is intended to produce a high level of current income by investing in income oriented closed end funds trading at significant discounts from Net Asset Value, Business Development Companies trading at significant discounts from their reported NAV, Real Estate Investment Trusts, high yield corporate bonds trading at a discount from par, high dividend equity securities, and potentially restructurings and equity closed end mutual funds trading at a discount to NAV. In the event that opportunities do not exist in manager’s opinion, they may hold cash or money market equivalents or high quality fixed income ETF’s with a duration of 5 years or less.

**SMHCA Growth:** Portfolios are invested in individual equities, mutual funds, and dividend paying stocks. This strategy is designed for clients seeking long-term capital appreciation within a diversified portfolio of equities. The majority of the portfolio is concentrated in growth oriented mutual funds. (See “Catalyst Funds” section for important disclosure information regarding the Catalyst Mutual Funds.) (Not available for new investors)

**SMHCA Balanced Growth:** Portfolios are invested in mutual funds, dividend paying stocks, individual equities, and high yield bonds. This strategy is for clients seeking long-term wealth accumulation or moderate income. Typically, at least one-third of the portfolio is concentrated in income producing securities with the balance in individual equities and growth oriented mutual funds. (See “Catalyst Funds” section for important disclosure information regarding the Catalyst Mutual Funds.) (Not available for new investors)

**SMHCA Balanced Growth & Bonds:** Portfolios are invested in mutual funds, dividend paying stocks, individual equities, investment grade and high yield bonds. This strategy is for clients seeking long-term wealth accumulation or moderate income. Typically, at least one-third of the portfolio is concentrated in income producing securities with the balance in individual equities and growth oriented mutual funds. (See “Catalyst Funds” section for important disclosure information regarding the Catalyst Mutual Funds.) (Not available for new investors)

## **Strategic Allocations**

Strategic allocations are individual wrap fee accounts that include a blend of general target percentages of SMHCA individual strategies in the same account. Portions of the account are allocated to several individual strategies within one account. Descriptions below contain the general target percentages allocated to each individual strategy within the client account. Clients should refer to the individual strategy descriptions above for a complete description of each how portion of the account will be managed. SMHCA may either use individual bonds.

**SMHCA Conservative Income and Growth:** 60% SMHCA Diversified Income, 30% SMHCA Tactical Equity, and 10% SMHCA Concentrated Aggressive Growth.

**SMHCA Moderate Income and Growth:** 60% SMHCA Total Return Income, 30% SMHCA Tactical Equity, and 10% SMHCA Concentrated Aggressive Growth.

**SMHCA High Income and Growth:** 60% SMHCA High Income, 30% SMHCA Tactical Equity, and 10% SMHCA Concentrated Aggressive Growth.

**SMHCA Growth:** 70% SMHCA Tactical Equity, 20% SMHCA Concentrated Aggressive Growth, and 10% SMHCA Alternative Financial Services.

**SMHCA Aggressive Growth:** 50% SMHCA Tactical Equity, 30% SMHCA Concentrated Aggressive Growth, and 20% SMHCA Alternative Financial Services.

**SMHCA Tax Free and Growth:** 60% SMHCA Municipal Income, 30% SMHCA Tactical Equity, and 10% SMHCA Concentrated Aggressive Growth.

## **SMHCA Un-Wrapped Program**

For some of the strategies listed above, clients can elect to “un-wrap” the fee and pay the commissions and portfolio administration fees separately. The portfolio administration fee includes investment selection and allocation, annual rebalancing, quarterly reporting and account service requests. Commissions for accounts held at FCC are charged according to the current commission schedule which is available upon request. Accounts opened prior to November 30, 2000 may be charged in accordance to schedules at that time which may be lower than the current schedule. Portfolios in these strategies may be implemented using mutual funds that are advised by or otherwise affiliated with SMHCA. SMHCA will purchase

Class I shares when available or Class A shares at NAV. Paying commissions and portfolio administration fees separately may cost the participant more or less than costs associated with participation in a wrap program. Therefore, on an annual basis, SMHCA compares for reasonableness on a 3-year rolling basis, the fees associated with its SMHCI Program wrap fees against fees that would be charged on an unbundled basis.

In addition, the SMHCI Program offers the following strategy to clients that opt to pay separate portfolio administration and transaction fees: SMHCA AAA.

**SMHCA AAA:** Portfolios are invested in AAA rated bonds (with residual cash). SMHCA may use Collateralized Mortgage Obligations (CMOs). CMOs are not rated by any of the rating agencies. SMHCA uses the rating for the underlying agency of the bonds to allocate these securities to the AAA policy of the portfolio. The AAA bonds purchased will reflect the current credit rating of the United States government; subject to changes of upgrades or downgrades in ratings. This style is designed to take advantage of yield spread differentials within the investment grade markets. This strategy is for clients seeking income and capital preservation.

### **Institutional Program**

SMHCA offers advisory and management services to institutions. Clients in this program are traditionally institutions who are working with a consultant and have a minimum investment of \$5,000,000. SMHCA, however, may grant exceptions to the minimum investment requirement from time-to-time under certain circumstances. SMHCA offers eight investment strategies in the Institutional Program: SMHCA High Yield, SMHCA Socially Responsible High Yield, SMHCA Diversified Income, SMHCA Socially Responsible Diversified Income, SMHCA AAA, SMHCA Total Return Income Unconstrained, SMHCA Core Plus Intermediate Term., and ML Capital Asset Management Limited Fund.

**SMHCA High Yield:** Portfolios are managed with a target of 100% high yield corporate and convertible bonds (with residual cash). On rare occasions, investment grade bonds may be purchased that, while still rated above high yield, are trading as high yield securities in anticipation of downgrades to follow. This style is designed to provide a higher current yield and total return.

**SMHCA Socially Responsible High Yield:** Portfolios are managed in the same way as the High Income except that SMHCA will adhere to a socially responsible investment policy that prohibits owning any companies in the investment portfolio that derive more than 50% of their annual revenue from the following industries: alcohol, tobacco, gambling, weapons manufacturing or pornography.

**SMHCA Diversified Income:** To take advantage of the benefits of combining high yield with investment grade bonds, this strategy is designed to provide returns over time above investment grade indices with less risk than a pure high yield portfolio. Portfolios are managed to a target, at time of purchase, of 50% investment grade or AAA bonds and 50% high yield bonds (with residual cash). The AAA portion of the portfolio is comprised of Collateralized Mortgage Obligations (CMOs). CMOs are not rated by any of the rating agencies. SMHCA uses the rating for the underlying agency of the bonds to allocate these securities to the investment grade or AAA portion of the portfolio. The AAA bonds purchased will reflect the current credit rating of the United States government; subject to changes of upgrades or downgrades in ratings. SMHCA has the option of increasing the investment grade or AAA bond allocation to as high as 80%, at time of purchase, if it determines that the market dictates such a move.

**SMHCA Socially Responsible Diversified Income:** Portfolios are managed in the same way as the SMHCA Diversified Income except that the SMHCA Socially Responsible Diversified Income strategy will adhere to a socially responsible investment policy, for the high yield portion of the portfolio, that prohibits owning any companies in the investment portfolio that derive more than 50% of their annual revenue from the following industries: alcohol, tobacco, gambling, weapons manufacturing or pornography.

**SMHCA AAA:** Portfolios are invested in AAA rated bonds (with residual cash). SMHCA may use Collateralized Mortgage Obligations (CMOs). CMOs are not rated by any of the rating agencies. SMHCA uses the rating for the underlying agency of the bonds to allocate these securities to the AAA policy of the portfolio. The AAA bonds purchased will reflect the current credit rating of the United States government; subject to changes of upgrades or downgrades in ratings. This style is designed to take advantage of yield spread differentials within the investment grade markets. This strategy is for clients seeking income and capital preservation.

**SMHCA Total Return Income Unconstrained:** Portfolios consist of investment grade bonds, high yield bonds, dividend paying stocks, individual equities, and derivatives of individual securities, including call options. This strategy is geared for long-term growth from both income and capital appreciation over a 10 year period, or a full market cycle.

**SMHCA Core Plus Intermediate Term:** To take advantage of the benefits of combining high yield with investment grade bonds, this strategy is designed to provide returns above traditional investment grade portfolios. Portfolios are managed to a target, at time of purchase, of 75% investment grade or AAA bonds and up to 25% high yield bonds (with residual cash). The AAA portion of the portfolio is comprised of Collateralized Mortgage Obligations (CMOs). CMOs are not rated by any of the rating agencies. SMHCA uses the rating for the underlying agency of the bonds to allocate these securities to the investment grade or AAA portion of the portfolio. The AAA bonds purchased will reflect the current credit rating of the United States government; subject to changes of upgrades or downgrades in ratings. SMHCA has the option of increasing the investment grade or AAA bond allocation to as high as 100%, at time of purchase, if it determines that the market dictates such a move. The high yield allocation of the portfolio will be implemented using high yield corporate and convertible bonds.

**ML Capital Asset Management Limited Fund:** Portfolios are managed with a target of 100% high yield corporate and convertible bonds (with residual cash). Investment grade bonds may be purchased that, while still rated above high yield, are trading as high yield securities in anticipation of downgrades to follow. This style is designed to provide a higher current yield and total return. The account will primarily invest in U.S. Dollar denominated high yield securities as defined by Moody's, Standard & Poor's or Fitch. It may also invest in U.S. Denominated convertible bonds and non-rated publicly traded high yield debt. This strategy may not engage in short sales, exchange traded funds or derivatives.

### **Advisor Platform Programs**

SMHCA has entered into agreements to provide portfolio management services to clients of wrap fee programs sponsored by certain independent national brokerage firms ("Sponsors") which are not affiliated with SMHCA. As participants in wrap fee programs, clients pay the Sponsor an asset-based fee that covers, among other costs, brokerage commissions and investment advisory fees. SMHCA relies on the Sponsor to determine the suitability of the wrap fee program for the client, as well as the suitability of SMHCA's services. Clients should be aware that SMHCA will generally not be provided with sufficient information by the Sponsor to assess client's suitability in connection with SMHCA's services. For the services it provides to clients in the wrap fee programs, SMHCA receives a percentage of the fees charged by the Sponsor.

Under a wrap fee arrangement, a brokerage firm may recommend retention of SMHCA to manage all or a portion of your assets; pay us our fee for our services; monitor and evaluate our services in managing your assets; execute securities transactions which we implement on your behalf; and provide you with custodial services for your assets, or the brokerage firm may provide any combination of these services, for a set fee to be paid by you to the brokerage firm. Under a wrap fee arrangement, your assets would be managed by us in the same manner as assets managed by us for our clients not in a wrap fee arrangement although this would be subject to your particular investment needs and objectives and we may have limited or minimal contact with you where the brokerage firm maintains the direct and primary relationship with you. You should understand that, depending upon the amount of the wrap fee the brokerage firm charges you, the number of securities transactions in your account, the value of custodial or other services you will receive under the arrangement, the amount of the wrap fee may or may not be less than the total cost for such services added together if you obtained them separately and therefore such arrangements may not be suitable for all clients based on the client's individual financial circumstances and investment goals. You can find more specific information on each wrap fee arrangement in the Wrap Fee Program Brochure

which should be available to you from the wrap fee arrangement sponsor. SMHCA does not act as a sponsor of any of these wrap fee arrangements.

For clients participating in Advisor Platform Programs, SMHCA offers six investment strategies: SMHCA High Income, SMHCA Socially Responsible High Income, SMHCA Diversified Income, SMHCA Socially Responsible Diversified Income, SMHCA AAA, and SMHCA Municipal Income. Not all strategies listed are available on all platforms. Clients should refer to the disclosure document provided by the Sponsor for a complete list of SMHCA strategies offered.

**SMHCA High Income:** Portfolios are managed with a target of 100% high yield corporate and convertible bonds (with residual cash). On rare occasions, investment grade bonds may be purchased that, while still rated above high yield, are trading as high yield securities in anticipation of downgrades to follow. This style is designed to provide a higher current yield and total return.

**SMHCA Socially Responsible High Income:** Portfolios are managed in the same way as the High Income except that the Socially Responsible High Income product will adhere to a socially responsible investment policy that prohibits owning any companies in the investment portfolio that derive more than 50% of their annual revenue from the following industries: alcohol, tobacco, gambling, weapons manufacturing or pornography.

**SMHCA Diversified Income:** To take advantage of the benefits of combining high yield with investment grade bonds, this strategy is designed to provide returns over time above investment grade indices with less risk than a pure high yield portfolio. Portfolios are managed to a target, at time of purchase, of 50% investment grade or AAA bonds and 50% high yield bonds (with residual cash). The AAA portion of the portfolio is comprised of Collateralized Mortgage Obligations (CMOs). CMOs are not rated by any of the rating agencies. SMHCA uses the rating for the underlying agency of the bonds to allocate these securities to the investment grade or AAA portion of the portfolio. The AAA bonds purchased will reflect the current credit rating of the United States government; subject to changes of upgrades or downgrades in ratings. SMHCA has the option of increasing the investment grade or AAA bond allocation to as high as 80%, at time of purchase, if it determines that the market dictates such a move.

**SMHCA Socially Responsible Diversified Income:** Portfolios are managed in the same way as the SMHCA Diversified Income except that the SMHCA Socially Responsible Diversified Income strategy will adhere to a socially responsible investment policy, for the high yield portion of the portfolio, that prohibits owning any companies in the investment portfolio that derive more than 50% of their annual revenue from the following industries: alcohol, tobacco, gambling, weapons manufacturing or pornography.

**SMHCA AAA:** Portfolios are invested in AAA rated bonds (with residual cash). SMHCA may use Collateralized Mortgage Obligations (CMOs). CMOs are not rated by any of the rating agencies. SMHCA uses the rating for the underlying agency of the bonds to allocate these securities to the AAA policy of the portfolio. The AAA bonds purchased will reflect the current credit rating of the United States government; subject to changes of upgrades or downgrades in ratings. This style is designed to take advantage of yield spread differentials within the investment grade markets. This strategy is for clients seeking income and capital preservation.

**SMHCA Municipal Income:** This strategy is managed to a target of 100% municipal bonds with an objective of providing tax advantaged income. Portfolios are invested in closed-end funds and Exchange Traded Funds.

## **Unified Managed Account Programs**

SMHCA has entered into agreements to provide portfolio management services to clients of Unified Managed Account (“UMA”) programs sponsored by certain independent national brokerage firms (“Sponsors”). As participants in the UMA programs, clients are offered a single portfolio that can contain multiple asset managers and funds, that is customized by the Client’s financial advisor. SMHCA may be one of the managers selected for managing a portion of the client’s account

assets. Client's participating in the UMA Program pay the Sponsor an asset-based fee that covers, among other costs, brokerage commissions and investment advisory fees. SMHCA relies on the Sponsor and/or Client's financial advisor to determine the suitability of the UMA program for the client, as well as the suitability of SMHCA's services. Clients should be aware that SMHCA will generally not be provided with sufficient information by the Sponsor to assess client's suitability in connection with SMHCA's services. For the services it provides to clients in the UMA programs, SMHCA receives a percentage of the fees charged by the Sponsor.

For clients participating in Unified Managed Account Programs, SMHCA offers four investment strategies: SMHCA High Income, SMHCA Socially Responsible High Income, SMHCA Diversified Income, and SMHCA Socially Responsible Diversified Income. Not all strategies listed are available on all programs. Clients should refer to the disclosure document provided by the Sponsor for a complete list of SMHCA strategies offered.

**SMHCA High Income:** Portfolios are managed with a target of 100% high yield corporate and convertible bonds (with residual cash). On rare occasions, investment grade bonds may be purchased that, while still rated above high yield, are trading as high yield securities in anticipation of downgrades to follow. This style is designed to provide a higher current yield and total return.

**SMHCA Socially Responsible High Income:** Portfolios are managed in the same way as the High Income except that the Socially Responsible High Income product will adhere to a socially responsible investment policy that prohibits owning any companies in the investment portfolio that derive more than 50% of their annual revenue from the following industries: alcohol, tobacco, gambling, weapons manufacturing or pornography.

**SMHCA Diversified Income:** To take advantage of the benefits of combining high yield with investment grade bonds, this strategy is designed to provide returns over time above investment grade indices with less risk than a pure high yield portfolio. Portfolios are managed to a target, at time of purchase, of 50% investment grade or AAA bonds and 50% high yield bonds (with residual cash). The AAA portion of the portfolio is comprised of Collateralized Mortgage Obligations (CMOs). CMOs are not rated by any of the rating agencies. SMHCA uses the rating for the underlying agency of the bonds to allocate these securities to the investment grade or AAA portion of the portfolio. The AAA bonds purchased will reflect the current credit rating of the United States government; subject to changes of upgrades or downgrades in ratings. SMHCA has the option of increasing the investment grade or AAA bond allocation to as high as 80%, at time of purchase, if it determines that the market dictates such a move.

**SMHCA Socially Responsible Diversified Income:** Portfolios are managed in the same way as the SMHCA Diversified Income except that the SMHCA Socially Responsible Diversified Income strategy will adhere to a socially responsible investment policy, for the high yield portion of the portfolio, that prohibits owning any companies in the investment portfolio that derive more than 50% of their annual revenue from the following industries: alcohol, tobacco, gambling, weapons manufacturing or pornography.

### **Sub-adviser**

SMHCA may be selected by other investment advisers to serve as a sub-adviser to certain client accounts. Clients should be aware that SMHCA will generally not be provided with sufficient information by the investment adviser to perform an assessment as to the client's suitability in connection with SMHCA's services. SMHCA relies on the investment adviser to determine the suitability of SMHCA's services for the client. SMHCA receives a percentage of the fees charged by the investment adviser for such sub-advisory services.

### **SMH Capital High Yield UCITS Fund**

SMHCA is a sub-advisor for the ML Capital Asset Management Limited Fund. ML Capital is a private limited company incorporated under the laws of Ireland with registration number 309632 and regulated by the Central Bank. The SMH Capital High Yield UCITS Fund is a sub-fund under the established umbrella fund, pursuant to the UCITS Regulations. UCITS Regulations are defined as the European Communities (Undertakings for Collective Investment in Transferable Securities).

## **Catalyst Funds**

SMHCA is the sub-adviser for two funds in the Catalyst fund family (the “Catalyst Funds”); each a series of the Mutual Funds Series Trust (formerly known as the Catalyst Funds), an open-end investment management company registered with the SEC, commonly referred to as a mutual fund, sponsored by Catalyst Capital Advisors, LLC (“CCA”). The Catalyst Funds use various allocations of high yield debt securities and dividend paying equities. As sub-adviser, SMHCA receives 50% of the management fee paid to the investment adviser, CCA.

In March 2008, SMHCA entered into a Joint Venture Agreement with the sponsor of the Mutual Fund Series Trust, in connection with the creation of the Catalyst/SMH High Income Fund (formerly known as the Catalyst High Income Fund), and the Catalyst/SMH Total Return Income Fund (formerly known as the Catalyst Total Return Fund) (the “Catalyst Funds”). Pursuant to the Joint Venture Agreement, SMHCA agreed to (a) act as sub-adviser for the Catalyst Funds, (b) make a capital contribution to CCA sufficient to pay certain start-up expenses of the Catalyst Funds and (c) pay a portion of the up-front commissions paid to brokers on sales of Class C shares and to wholesalers of the Catalyst Funds as compensation for share purchases in the Catalyst Funds. In exchange for its capital contribution, SMHCA is entitled to receive non-voting, Class C Units of Membership in CCA, which entitle SMHCA to receive 50% of the net proceeds received by CCA related to the Funds if CCA is acquired or sells the rights to manage the Funds.

In addition, certain employees of SMHCA are also registered representatives of Sanders Morris Harris LLC, an affiliated broker dealer, and may receive commissions and 12b-1 fees for selling the Funds. Such a structure may create a conflict of interest. In addition, SMHCA may utilize the Catalyst Funds to implement SMHCA strategies. In addition to earning advisory fees for implementing the strategy, SMHCA also earns a management fee from the fund. This structure, which allows SMHCA to earn a management fee, as well as entitles it to receive 50% of the net proceeds received by CCA related to the Funds upon change of control, can create a conflict of interest when recommending investments. See the Catalyst Fund Prospectus for a full description of the management fees and expenses related to the Catalyst Funds.

## **Investment Consulting**

SMHCA offers financial and investment consulting services at an hourly rate of \$395. An hourly rate of \$95 may also be assessed for other administrative services such as clearing of estates, transferring ownership of securities, calculating the cost basis of accounts, etc.

## **Financial Planning and Non-Investment Consulting Services**

SMHCA does not provide comprehensive financial planning services. Rather, to the extent requested by the client, SMHCA may provide limited retirement-related consulting services incidental to the investment management process on matters such as estate planning, tax issues, and insurance needs. Neither SMHCA, nor any of its representatives, serves as an attorney or accountant, and no portion of SMHCA’s services should be construed as same. To the extent requested by a client, SMHCA may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, securities brokers, insurance, etc.), including representatives of SMHCA in their separate individual capacities as representatives of Sanders Morris Harris, LLC (“SMH” or “Sanders Morris Harris”), the Firm’s FINRA member broker dealer, and as licensed insurance agents. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from SMHCA and/or its representatives. If the client engages any such unaffiliated recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. The recommendation by SMHCA representatives that a client purchase a securities or insurance commission product from firm representatives in their individual capacities as representatives of SMH and/or as insurance agents, presents a conflict of interest, as the receipt of commissions may provide an incentive to recommend investment products based on commissions to be received, rather than on a particular client’s need. No client is under any obligation to purchase any securities or insurance commission products from SMHCA representatives and clients may purchase securities and insurance products recommended by SMHCA through other, non-affiliated broker dealers and/or



insurance agencies. SMHCA's Chief Compliance Officer, David Hunt, is available to address any questions that a client or prospective client may have regarding the above conflicts of interest.

**As of December 31, 2016, SMHCA manages approximately \$414 million in client assets on a discretionary basis and approximately \$13 million client assets on a non-discretionary basis. This includes all assets managed in all programs discussed above. Calculation of assets is based upon market values plus accrued interest at December 31, 2016.**

### **Item 3: Fees and Compensation**

Except as specifically noted herein, fees are negotiable and may vary depending on the extent of the services provided and the costs of such services. Fees may be deducted directly from clients' managed account(s).

SMHCA offers financial and investment consulting services at an hourly rate of \$395. An hourly rate of \$95 may also be assessed for other administrative services such as clearing of estates, transferring ownership of securities, calculating the cost basis of accounts, etc.

The specific manner in which advisory fees are charged by SMHCA is established in a client's written agreement with SMHCA.

Sanders Morris Harris, LLC ("SMH" or "Sanders Morris Harris") the broker dealer for SMHCA, is a member of FINRA and SIPC. SMHCA through its representatives and/or employees in their separate individual capacities as representatives of Sanders Morris Harris will often execute securities transactions on behalf of the clients of SMHCA through Sanders Morris Harris. Sanders Morris Harris, and representative and/or employees of SMHCA in their individual capacities as representative of Sanders Morris Harris, will receive commissions and fees for executing securities transactions on behalf of SMHCA clients. In addition, Sanders Morris Harris may receive compensation in the form of 12b-1 fees from investment companies (i.e., mutual funds) that SMHCA recommends to its clients. These 12b-1 fees may also be received by representatives and/or employees of SMHCA in their separate individual capacities as representatives of Sanders Morris Harris. This practice may present a conflict of interest as it may provide an incentive for SMHCA and its representatives and/or employees to recommend an investment product based on the possible compensation payable to Sanders Morris Harris or to the representatives and/or employees of SMHCA. Further, in its capacity as sub-adviser or adviser, SMHCA may receive management fees and Sanders Morris Harris may receive 12b-1 fees on the same mutual fund assets. SMHCA's Chief Compliance Officer David Hunt, is available to address any questions that a client or prospective client may have regarding this conflict of interest.

In addition, mutual funds, closed end funds, and exchange traded funds impose internal fees and expenses. Such fees and expenses are in addition to portfolio management fees charged to the client for SMHCA's services. Complete details of fees, expenses, and other charges are disclosed in the applicable prospectus.

The fees you pay us do not include brokerage commissions or other fees or charges associated with securities transactions implemented with or through a brokerage firm, mark-ups or mark-downs in principal transactions, deferred sales charges, stock exchange fees, wire transfer or related processing fees, transfer taxes or other charges mandated by law or regulation all of which will be charged to you in addition to our fee.

You should understand that mutual funds, including exchange traded funds, in which your assets are invested by us or by others, impose separate investment management fees and other operating expenses, described in the fund's prospectus, for which you, the client, will be charged separately from the fee paid to us for our services.

Clients for whom SMHCA calculates and bills portfolio management fees are charged quarterly, in advance. Clients that terminate their account before the end of a quarter will receive a refund for any pre-paid services that were not received. Such refunds are calculated on a per diem basis and are due within thirty days of termination of the agreement. When a third party (e.g., a wrap fee sponsor or other Investment Advisor) calculates and bills portfolio management fees are charged quarterly, either in advance or arrears, as determined and disclosed by the third party.

Quarterly fees are payable on the first business day of each calendar quarter, based on the market value of the account, plus accrued interest, on the last reporting day of the previous quarter. If a client has a margin balance, the quarterly fee is calculated based on the long market value. Market values and account information are downloaded into SMHCA's portfolio management software each day. The third-party pricing services used as part of this download may differ from those of the custodian. Performance and billing are based upon the values in the portfolio management software as reported by the third-party pricing service with accrued interest as calculated by SMHCA.

Clients should go to the section on Brokerage Practices in our brochure for more information on how we select or recommend brokerage firms for your securities transactions and information related to that process.

## **Changes to Fees**

SMHCA may change the fee schedule at any time by giving 30 days prior written notice to the client. Following the 30-day notice period, the new fee schedule will become effective unless the client terminates the SMH Program Agreement. The client's continued acceptance of the services will constitute consent to changes in the Wrap Fee, including an increase in the amount charged.

## **SMA and Institutional Programs Fee Schedules**

The SMA and Institutional Program advisory fees charged by SMHCA are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which will be incurred by a client. Clients may also incur certain charges imposed by custodians, brokers, and other third parties such as fees charged by third party managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

In the SMA Program, the third-party advisor may add an advisory fee in addition to the fee charged by SMHCA. The SMHCA fee and the third-party advisor fee will comprise the total fee. This total fee will be shown on the Client's SMA Program Agreement. The additional advisory fee is not shown below. A portion of the investment advisory fees received by SMHCA may be paid to the introducing third-party investment advisor. The fees that SMHCA pays to the third party do not result in additional fees to the client.

<b>Assets Under Management</b>	<b>SMHCA AAA</b>	<b>SMHCA Diversified Income and SMHCA Socially Responsible Diversified Income</b>	<b>SMHCA High Yield/Income and SMHCA Socially Responsible High Yield/Income  SMHCA Total Return Income</b>
First \$25 million	0.30%	0.70%	0.80%
Next \$25 million	0.275%	0.60%	0.70%

Next \$50 million	0.25%	0.50%	0.60%
\$100 - \$250 million	0.20%	0.40%	0.50%
\$250 - \$500 million	0.175%	0.35%	0.45%
Over \$500 million	0.15%	0.30%	0.40%

<b>Assets Under Management</b>	<b>SMHCA Total Return Income Unconstrained</b>
First \$25 million	1.00%
Next \$25 million	0.90%
Next \$50 million	0.80%
\$100 - \$250 million	0.70%
\$250 - \$500 million	0.60%
Over \$500 million	0.50%

In the Institutional Program, SMHCA also offers an incentive-based fee arrangement to institutional clients, in lieu of the fee schedule above which is negotiated on a client-by-client basis. See “Performance-Based Fees and Side-by-Side Management” section for more information about these arrangements.

The following individual strategies are not available in the Institutional Program. Fees shown below are for the following individual strategies as offered through the SMA Program:

<b>Assets Under Management</b>	<b>SMHCA Concentrated Aggressive Growth, SMHCA Alternative Financial Services SMHCA Tactical Equity SMHCA Municipal Income</b>
First \$25 million	0.80%
Next \$25 million	0.70%
Next \$50 million	0.60%

\$100 - \$250 million	0.50%
\$250 - \$500 million	0.45%
Over \$500 million	0.40%

The following strategic allocations are not available in the Institutional Program. Fees shown below are for the following strategic allocations as offered through the SMA Program:

<b>Assets Under Management</b>	<b>SMHCA Conservative Income and Growth</b> <b>SMHCA Moderate Income and Growth</b> <b>SMHCA High Income and Growth</b> <b>SMHCA Growth</b> <b>SMHCA Aggressive Growth</b> <b>SMHCA Tax Free and Growth</b>
First \$25 million	0.80%
Next \$25 million	0.70%
Next \$50 million	0.60%
\$100 - \$250 million	0.50%
\$250 - \$500 million	0.45%
Over \$500 million	0.40%

## **SMHCI Program Fee Schedules**

### **SMHCA Sponsored Wrap Program Fees**

#### **Individual Strategies**

<b>SMHCA Concentrated Aggressive Growth</b>	<b>SMHCA Alternative Financial Services</b>	<b>SMHCA Tactical Equity</b>	<b>SMHCA Catalyst Allocation</b> <b>SMHCA Absolute Income</b>
3.00%	2.00%	1.50%	1.25%

<b>SMHCA Growth, SMHCA Balanced Growth and SMHCA Balanced Growth &amp; Bonds</b>	<b>SMHCA Total Return Income</b>	<b>SMHCA Municipal Income</b>
1.00%	1.00%	1.00%

<b>Assets Under Management</b>	<b>SMHCA Diversified Income, and SMHCA Socially Responsible Diversified Income</b>	<b>SMHCA High Income and SMHCA Socially Responsible High Income</b>
Up to \$1 million	1.25%	1.25%
Next \$4 million	1.00%	1.00%
Next \$5 million	0.80%	0.80%

### **Strategic Allocations**

<b>SMHCA Conservative Growth and Income and SMHCA Tax Free and Growth</b>	<b>SMHCA Moderate Income and Growth  SMHCA High Income and Growth</b>	<b>SMHCA Growth</b>	<b>SMHCA Aggressive Growth</b>
1.25%	1.50%	1.50%	2.00%

## **SMHCA Un-Wrapped Program Fees**

For the strategies listed below, clients pay commissions and portfolio administration fees separately. The portfolio administration fee covers investment selection and allocation, annual rebalancing, quarterly reporting and account service requests. Commissions for accounts held at FCC are charged according to the current commission schedule which is available upon request. Accounts opened prior to November 30, 2000 may be charged in accordance to schedules in effect at that time which may be lower than the current schedule.

<b>SMHCA AAA</b>
0.10%

## **Item 4: Performance-Based Fees and Side-By-Side Management**

In some cases, SMHCA may enter into performance fee arrangements with qualified clients; these fees are subject to individualized negotiation with each client. Qualified clients are defined as having at least \$1 million of assets under management with SMHCA or a net worth of at least \$2 million. SMHCA structures any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisors Act of 1940 (the “Advisors Act”) in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. In measuring clients' assets for the calculation of performance-based fees, SMHCA includes realized and unrealized capital gains and losses and accrued interest. Performance-based fee arrangements may create an incentive for SMHCA to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. SMHCA has procedures designed to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients. SMHCA does not engage in Side-by-Side management; the practice of simultaneously managing mutual funds and hedge funds.

## **Item 5: Types of Clients**

SMHCA may provide portfolio management services to individuals, high net worth individuals, registered mutual funds, corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, private investment funds, trust programs, insurance companies, and individuals participating in wrap fee programs.

## **Item 6: Methods of Analysis, Investment Strategies and Risk of Loss**

### **High Yield Process**

SMHCA adheres to a bottom-up value investment style with a primary focus on the balance sheet of the businesses. Our High Yield process consists of three disciplines.

1. In the first discipline, SMHCA attempts to reduce credit risk through financial analysis of the inherent value and a focus on tangible asset-backed debt. 2. In the second discipline, SMHCA attempts to ensure that there is an adequate return for the risk. Bonds are screened to meet SMHCA’s predetermined levels of an adequate yield over treasuries in an effort to compensate for the risk. Then SMHCA selects those securities that provide the best relative value while avoiding paying too much for the securities purchased. 3. Finally, in the third discipline, SMHCA attempts to reduce the systematic (or market)

risk. SMHCA attempts to avoid being too much like “the market,” i.e. returns should not simply be similar to the index for the high yield bond asset class. Statistically, most of the diversification of a portfolio has been shown to come from less than the first 20 holdings. This results in a portfolio of 20-40 positions. A single position will not account for more than 5% of an entire portfolio at the time of purchase.

### **AAA Process**

(SMHCA Diversified Income, SMHCA Socially Responsible Diversified Income, SMHCA Core Plus Intermediate Term, SMHCA AAA)

The AAA portion of the portfolios is comprised of Collateralized Mortgage Obligations (CMOs). CMOs are not rated by any of the rating agencies. SMHCA uses the rating for the underlying agency of the bonds to allocate these securities to the AAA portion of the portfolios. The AAA bonds purchased will reflect the current credit rating of the United States government; subject to changes of upgrades or downgrades in ratings.

CMO interest payments are guaranteed by the respective government enterprises, Freddie Mac (FHLMC) and Fannie Mae (FNMA). Agency (or Government Sponsored Enterprise (GSE)) bonds are not normally rated. GSE bonds are not explicitly backed by the full faith and credit of the U.S. Government, but they have implied government backing and an implied Aaa/AAA rating. As of September 7, 2008 FNMA and FHLMC are currently under conservatorship of the Federal Housing Finance Agency and have received financial assistance from the U.S. Treasury. Please request an Investor’s Guide to Mortgage Backed Securities and Collateralized Mortgage Obligations (CMOs) for more information.

### **Methods and Strategies**

SMHCA has developed several propriety systems that include charting, fundamental analysis as well as use of technical indicators to make buy and sell decisions within the equity and bond markets. SMHCA obtains information from various sources for use in its analysis. The sources of information include: financial newspapers and magazines; inspections of corporate activities; research materials prepared by others; corporate rating services; annual reports, prospectuses, filings with the SEC; company press releases; Bloomberg; the Internet; and disclosure documents of money managers.

SMHCA uses various investment strategies to implement investment advice given to clients. These strategies include: long-term purchases (securities held at least a year); short-term purchases (securities sold within a year); trading (securities sold within 30 days); short sales; margin transactions; option writing, including covered, uncovered, or spreading strategies; market-based instruction; and diversified portfolios suited to client-specific risk tolerances and investment objectives.

### **Investment Strategy Risks**

Investing in securities involves risk of loss that clients should be prepared to bear. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by SMHCA) will be profitable or equal any specific performance level(s).

**Market Risk.** Even a long-term investment approach cannot guarantee a profit. Economic, political and issuer-specific events will cause the value of securities to rise or fall. Because the value of investment portfolios will fluctuate, there is the risk that you will lose money and your investment may be worth more or less upon liquidation.

Strategies offered by SMHCA are not suitable for all investors. Clients should consider the risk associated with placing a substantial portion of investable assets into a non-diversified strategy. A portfolio that invests a substantial portion of its assets in a single position or sector of the economy may be subject to greater price volatility or be adversely affected by the performance of that particular industry, sector or company. SMHCA’s strategies may not be suitable for all clients, and generally should only be a part of the client’s total invested assets. Each client should review the client’s investment objectives, risk tolerance, tax objectives, and liquidity needs before selecting an investment style or manager. In making an investment decision, a client should utilize other information sources and the advice of their investment professional. All investments carry a certain degree of risk and no one particular investment style or manager is suitable for all types of investments.

SMHCA is a value-oriented investment adviser that specializes in fixed income management. SMHCA also offers advice on various securities including, but not limited to, equity securities including common and preferred stock, including exchange-listed, over-the-counter, and foreign issuer securities; warrants; corporate debt securities; commercial paper; certificates of deposit; municipal securities; investment company securities, including mutual fund shares (including affiliated mutual funds); closed-end funds, Exchange Traded Funds; American Depositary Receipts, Real Estate Investment Trusts; Publicly Traded Business Development Companies (“BDCs”), United States government and government agency securities; high yield corporate bonds; and collateralized mortgage obligations (“CMOs”).

There are specific risks associated with investing in high yield bonds, CMOs and BDCs. An Investor’s Guide to CMOs, outlining the characteristics and risks of CMOs and important issues to consider prior to investing in CMOs is available upon request. This section discusses some of the specific risks inherent in high yield bonds and CMOs, but is not intended to be all-inclusive of such risks. For example, a bond issuer may not be able to meet its principal and interest obligations. In addition, CMOs carry interest rate and prepayment risks and, as such, an investment may lose value. Fluctuations in interest rates may increase or decrease the return of a portfolio.

**High Yield Corporate Bonds.** High yield bonds may not be suitable for all clients. As a result of SMHCA’s investment in high yield securities and unrated securities of similar credit quality, a portfolio may be subject to greater levels of interest rate, credit, and liquidity risk than portfolios that do not invest in such securities. High yield securities are considered predominantly speculative with respect to the issuer’s continuing ability to make principal and interest payments. An economic downturn or period of rising interest rates could adversely affect the market for high yield securities and reduce SMHCA’s ability to sell them without potentially significant price concessions. If the issuer of a security is in default with respect to interest payments or principal payments, the security may lose its entire value.

**CMO Risks.** CMOs may not be suitable for all clients. CMOs carry interest rate and prepayment risks although they have an implied AAA-rated (investment grade). This rating however is subject to upgrades and downgrades based on credit rating of the US Government debt. Rising interest rates tend to extend the duration of mortgage-related securities, making them more sensitive to changes in interest rates (known as duration extension risk). In addition, mortgage-related securities are subject to prepayment risk. When interest rates decline, borrowers may pay off their mortgages sooner than expected. This can reduce returns because SMHCA then has to reinvest the money at the lower prevailing interest rates.

**BDC Risks.** BDCs may not be suitable for all clients. BDCs carry risks including, but not limited to, price volatility, credit risk, liquidity risk and informational risk. BDCs can be subject to significant volatility in price and potential lack of liquidity.

**Ratings and Information Risk.** High yield bonds and BDCs are in most cases non-rated or rated below investment grade by rating agencies, (considered highly speculative) Moody’s and S&P. S&P Credit Ratings and Moody’s Credit Ratings are financial service companies that rate stocks, as well as corporate and municipal bonds, according to risk profiles. In some cases, securities may have split ratings, with rating agencies assigning different ratings to the same security. In addition, ratings changes may not be made on a timely basis. There may also be limited information available about or from issuers of non-rated or below investment grade securities.

**Price Volatility Risk.** Market values and yield for securities rated below investment grade may be affected significantly by changes or developments that pertain to the issuer and its industry.

**Credit, Default and Bankruptcy Risk.** Issuers of securities receiving the lowest investment ratings, compared to other higher grade securities, may have a weakened capacity to make required principal and interest payments. This may be due to over leveraging, potential cash flow challenges or other factors. Issuers of below investment grade securities are more susceptible to default and bankruptcy during a period of prolonged deterioration in economic conditions or other adverse circumstances.

**Liquidity Risk.** Liquidity risk exists when particular investments are difficult to purchase or sell, based on a lack of dealers and traders in the marketplace. Investments in illiquid bonds may reduce a client’s return if SMHCA is unable to sell such illiquid securities at an advantageous time or price. Many of the holdings trade over-the-counter and the trading volume in some is relatively low. A client should not expect to get same day liquidity as in listed securities. The sooner the client wants



his/her cash, the more detrimental it may be to execution prices. Market values may be volatile in periods of market illiquidity. Depending on the size of the account, a liquidating client often may not receive the full market value of recently priced securities because illiquid securities priced less accurately and are typically valued for larger size transactions.

**Economic Uncertainty/Asset Class Cyclicalities.** Opportunities in the high yield bond market vary with economic and liquidity conditions and therefore client expectations should be realistic. As perceived deterioration or improvement of the economy occurs, yield spreads over higher quality issues increase or decrease. The combination of spreads (yields) and trading gains or losses result in realized returns which may be above or below investors' expectations. Clients must understand that SMHCA's investment approach can go in and out of favor for several years at a time.

**Volatility Caused by Concentration of Holdings.** As more names, or diversification, are added to a portfolio, credit risk decreases while systematic risk [correlation with the market] increases. SMHCA's objective is to provide less systematic risk than an index type manager and produce excess returns versus the benchmark over a complete cycle. Less names, or a more concentrated portfolio, can bring increased volatility on the upside and downside versus the index or the average high yield mutual fund which might typically holds hundreds of different bonds.

In addition to the risks discussed above, concentrated, sector, and alternative strategies present additional risks which the client should consider. These risks may include but are not limited to:

**Foreign Securities and Currency Risk.** Investments in international and emerging-market securities include exposure to risks such as currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability.

**Derivatives.** Derivatives are securities, such as futures contracts, whose value is derived from that of other securities or indices. Derivatives can be used for hedging (attempting to reduce risk by offsetting one investment position with another) or non-hedging purposes. Hedging with derivatives may increase expenses, and there is no guarantee that a hedging strategy will work.

**Hedging.** While hedging can reduce or eliminate losses, it can also reduce or eliminate gains. Derivative securities are subject to a number of risks including: liquidity risk, interest rate risk, market risk, credit and management risks, and risk of improper valuation. Changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index, and the strategy could lose more than the principal amount.

Additionally, alternative investments may carry emerging markets risk, IPO risk, and leverage risk. Alternative assets are frequently asset classes that are referred to as non-correlated (investments that move contrary to or without influence from broader markets). While including non-correlated assets may result in smoother portfolio performance with less volatility, there are no assurances that non-correlated assets will not decline in value.

Some SMHCA strategies are subject to **asset allocation risk**, which is risk that selection of and allocation of assets to the securities will cause the strategy to underperform. Additionally, some of the SMHCA strategies invest in mutual funds, exchange traded funds, and closed end funds. Risk factors will vary from fund to fund.

**Exchange Traded Funds.** ETFs face market-trading risks, including the potential lack of an active market for shares, losses from trading in the secondary markets and disruption in the creation/redemption process of the ETF. Any of these factors may lead to the fund's shares trading at either a premium or a discount to its "net asset value."

**Performance of Underlying Managers.** SMHCA selects mutual funds, closed end funds and ETFs. SMHCA depends on the manager of such funds to select individual investments in accordance with their stated investment strategy.

## **Item 7: Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of SMHCA or the integrity of SMHCA's management. SMHCA has no information applicable to this item.

## **Item 8: Other Financial Industry Activities and Affiliations**

As disclosed above in Item 4, SMHCA may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, securities brokers, insurance, etc.), including representatives of SMHCA in their separate individual capacities as representatives of SMH and as licensed insurance agents. The recommendation by SMHCA representatives that a client purchases securities (as a representative of SMH) or insurance commission product presents a conflict of interest, as the receipt of commissions may provide an incentive to recommend investment products based on commissions to be received, rather than on a particular client's need. These commissions and fees are in addition to SMHCA's management fee and other fees and expenses of investment companies in which a client's account may be invested. No client is under any obligation to purchase any securities or insurance commission products from SMHCA representatives. Clients are reminded that they may purchase securities and insurance products recommended by SMHCA through other non-affiliated broker dealers and/or insurance agents. SMHCA's Chief Compliance Officer, David Hunt, is available to address any questions that a client or prospective client may have regarding the above conflicts of interest.

Certain SMHCA employees who are IARs of SMHCA may also be IARs and registered representatives of Sanders Morris Harris and may receive commissions from the sale of mutual funds, stocks, insurance, and other investments to clients. This presents a conflict of interest to the extent that an IAR recommends the purchase of security, which results in commissions being paid to the IAR as a registered representative of Sanders Morris Harris. SMHCA anticipates that future employees may also be registered representatives of Sanders Morris Harris.

SMHCA is wholly owned by Summer Wealth Management, LLC. However, SMHCA exercises its own independent investment and voting discretion in accordance with its investment philosophy, fiduciary duties, client guidelines, subject to oversight by Summer Wealth Management, LLC and its management.

SMHCA may use funds advised by or otherwise affiliated with SMHCA, such as Catalyst Funds in SMH or SMA Program client accounts. As sub-adviser to the Catalyst/SMH High Income Fund and Catalyst/SMH Total Return Income Fund, SMHCA receives a percentage of the management fee charged to the funds, based upon fund assets. The management fee charged to fund investors is in addition to the SMHCA portfolio administration fee charged to client accounts. Such a structure may create a conflict of interest.

SMHCA IARs may also be licensed insurance agents for HWG Insurance Agency LLC, a wholly owned subsidiary of SMH. If a client elects to purchase an insurance product through an SMHCA employee, which may include life, accident, disability insurance and annuities, the IAR may receive a commission from those sales. This presents a conflict of interest to the extent that the IAR recommends the purchase of an insurance product which results in commission being paid to the IAR as an insurance agent.

Through Summer Wealth Management, LLC, we are also affiliated with the following investment adviser and operating entities – GFS Advisors LLC, Global Financial Services LLC, a registered broker-dealer.

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

As addressed below in Item 11, SMHCA does not buy or sell securities that it owns to advisory clients (principal transactions), nor does it allow agency cross transactions in advisory accounts.

As addressed below in Item 11, SMHCA representatives may buy or sell for themselves securities they also recommend to clients. These investment products will be bought and sold on the same basis as the clients, according to the clients' stated goals and investment objectives. In all instances, it is presumed that the positions would be so small as to not impact the pricing or performance of the security.

## **Item 9: Code of Ethics**

SMHCA has adopted a Code of Ethics for all employees of the firm describing its high standard of business conduct and its fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, insider trading, gifts and entertainment, and personal securities trading, among other things. All employees at SMHCA must acknowledge the terms of the Code of Ethics annually, or as amended. SMHCA's employees are required to follow SMHCA's Code of Ethics.

SMHCA's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Lisa Haley, Institutional Advisor.

SMHCA anticipates that from time to time, SMHCA may recommend and affect the purchase or sale of securities in which SMHCA, its affiliates and/or clients, directly or indirectly, have a position of interest. In compliance with the Code of Ethics and applicable laws, officers, directors and employees of SMHCA may trade for their own accounts in securities which are recommended to and/or purchased for SMHCA's clients.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of SMHCA will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. The Code of Ethics requires pre-clearance of certain transactions. Employee trading is continually monitored to reasonably prevent conflicts of interest between SMHCA and its clients.

Employees may buy or sell for themselves securities that they also recommend to clients. Securities purchased and sold for the account of an employee are purchased and sold on the same basis for the client according to the client's stated goals and investment objectives. Employees may hold positions in securities held or recommended to clients but may not front-run. Internal procedures have been instituted to ensure that the client is treated fairly in execution of all trades.

To avoid conflicts of interest, SMHCA directors, officers or employees are prohibited from buying or selling securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of their employment unless the information is also available to the investing public on reasonable inquiry. No employee of SMHCA shall place their own interests over those of the advisory client. Further, all employees must comply with all applicable federal and state regulations governing registered investment advisory practices.

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

As disclosed in Item 4, the Catalyst Funds structure allows SMHCA to earn a management fee, as well as entitles it to receive 50% of the net proceeds received by CCA related to the Funds upon change of control and therefore creates a conflict of interest when recommending investments.

## **Item 10: Brokerage Practices**

### **Client Securities Transactions**

In the event that the client requests that SMHCA recommend a broker dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct SMHCA to use a specific broker dealer/custodian), SMHCA generally recommends that investment advisory accounts be effected by and/or maintained at SMH and/or Wells Fargo Clearing Services, LLC ("WFCS"). Prior to engaging SMHCA to provide investment advisory services, the client will be required to enter into a formal Investment Advisory Agreement with SMHCA setting forth the terms and conditions under which SMHCA shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker dealer/custodian.

Further, as discussed above, certain of SMHCA's representatives, in their respective individual capacities are registered representatives of SMH. These representatives are subject to NASD Rule 3040, which restricts registered representatives from conducting securities transactions away from their broker dealer unless SMH provides written consent. Therefore, clients are advised that certain associated persons may be restricted to conducting securities transactions through SMH unless they first secure written consent from SMH to execute securities transactions through a different broker dealer. Absent such written consent or separation from SMH these representatives are prohibited from executing securities transactions through any broker dealer other than SMH as described in the Firm's internal supervisory policies. SMHCA is cognizant of its duty to obtain best execution and has implemented policies and procedures reasonably designed in such pursuit.

Factors that SMHCA considers in recommending SMH and/or WFCS (or any other broker dealer/custodian to clients) include historical relationship with SMHCA, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by SMHCA's clients shall comply with SMHCA's duty to obtain best execution, a client may pay a commission that is higher than another qualified broker dealer might charge to effect the same transaction where SMHCA determines, in good faith, that the commission/transaction fee is reasonable. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of broker dealer services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although SMHCA will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker dealer/custodian are exclusive of, and in addition to, SMHCA's investment advisory fee. SMHCA's best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

As discussed above, SMH will serve as the introducing broker dealer for certain client advisory account(s). SMH shall earn commission and/or transaction fees for account transactions, a portion of which may be remitted by SMH to representatives of SMHCA in their separate individual capacities as registered representatives of SMH. The transactions fees charged by SMH may be higher than those charged by other broker dealers.

SMHCA may aggregate purchase or sale orders for several clients, including clients that are related to SMHCA or IARs. SMHCA, however, will not aggregate transactions unless it believes such aggregation will result in the best overall execution for all participating clients and is consistent with the terms of the applicable investment advisory agreement. Furthermore, no client account will be favored by SMHCA over any other account. All client accounts participating in an aggregated trade will receive the average price and pay a proportional share of any commission, subject to a minimum ticket charge.

SMHCA will create, prior to entering an aggregated order, a written allocation statement (the “Allocation Statement”). If the aggregated order is filled in its entirety by the end of the day, it will be allocated among the accounts in accordance with the Allocation Statement. If the order is only partially filled at the end of the day, it will be allocated with priority given to clients that did not receive an allocation the last time the bond (or a similar bond) was traded. Efforts are made to avoid placing odd or small lots in client accounts and to avoid excessive ticket charges. In addition, accounts of SMHCA or IARs are excluded from allocations in the event of a partial fill. All aggregated trades will be allocated before the close of business on the trade date.

## **Custodial Arrangements**

SMHCI and some SMA and Institutional Program accounts are currently held at Wells Fargo Clearing Services LLC (“WFCS”). WFCS provides an automated sweep of un-invested cash to a variety of money market funds, including FDIC insured funds. WFCS does not charge a fee for this service; however, money market funds do have internal fees and expenses. SMHCA receives monthly compensation based on the average amount of client assets in the money market funds.

The custodian for other client accounts will vary, depending on the types of advisory services SMHCA is providing. Wrap fee and Unified Managed Account program accounts will be held by the Sponsor or the custodian selected by the Sponsor. When SMHCA serves as a sub-adviser, the investment adviser will select the custodian.

## **Investment Research from Brokerage**

Section 28(e) of the Securities Exchange Act of 1934 (“Exchange Act”) provides a safe harbor that allows an investment adviser to cause a client to pay more than the lowest available commission in order to obtain brokerage and research services (“soft dollar arrangements”). SMHCA does not currently have any such soft dollar arrangements. In the event that SMHCA wishes to enter into a soft dollar arrangement, such arrangement will be approved in advance by SMHCA, documented in a written agreement, and will comply with the safe harbor provided by Section 28(e) of the Exchange Act.

## **Trade Errors**

SMHCA strives to take the utmost care in implementing investment decisions of behalf of client accounts. However, occasionally an error may occur in a client account. To the extent that an error occurs that is unique to the client, SMHCA will correct them as soon as is practical and in such a manner that the affected client incurs no loss. Any losses will be reimbursed by SMHCA; any gains will be retained by the client. In the case of an aggregated allocation trade, errors will be corrected using the average price provided to all affected clients. The trade error will be settled via the error account. Any gains or losses in this error account will be the responsibility of SMHCA.

In the event an error is caused by a broker dealer or other third-party, SMHCA will take reasonable steps to resolve the error and ensure that affected clients are made whole. However, under no circumstances may a broker dealer pay costs attributable to a trade error caused by SMHCA or any employee of SMHCA.

## **Item 11: Review of Accounts**

SMHCA investment personnel systematically monitor investment strategies on a daily basis. Changes affecting a particular investment strategy or model will trigger changes to all client portfolios following that strategy or model. Portfolios not following a particular strategy or model are also periodically reviewed for investment opportunities. In addition, not less than annually, client portfolios are reviewed with clients by IARs to ensure strategy continues to meet the client’s investment objectives and to determine if the client wishes to impose any new restrictions on the management of the account.

The overall performance of each portfolio is reviewed on a monthly basis using outlier reports. For client accounts over which SMHCA has discretionary authority, portfolios are reviewed to ensure that each transaction: (1) is suitable to the client's investment objectives, (2) meets the client's quality standards, and (3) complies with the client's investment objectives.

The nature and frequency of reports to clients are determined primarily by the particular needs of each client and the program that the client has selected. For most programs, SMHCA will issue quarterly reports detailing account holdings unless a client requests more frequent reporting. Clients also receive account statements at least quarterly from the custodian detailing all activity in the client's managed account.

## **Item 12: Client Referrals and Other Compensation**

### **Referral Arrangements**

From time to time, SMHCA may enter into solicitation agreements with individuals or entities whereby investment advisory accounts are solicited for SMHCA. These agreements require that the solicitor perform his duties in accordance with the Advisers Act and appropriate state regulations and that the solicitor provide each prospective client with Part 2 of SMHCA's Form ADV and the solicitor's separate written disclosure document. SMHCA does not receive compensation from any person for client referrals.

SMHCA compensates certain employees internally who refer potential clients to us or obtain additional assets for our services. Thus, the employee will have a financial interest in the selection of SMHCA by the client for our services.

## **Item 13: Custody**

SMHCA does not maintain custody of client funds or securities. Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains clients' account assets. SMHCA urges the client to carefully review such statements and compare such official custodial records to the account statements that we may provide. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 14: Investment Discretion**

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

When selecting securities and determining quantities, SMHCA observes the client's investment policies, limitations and restrictions. For registered investment companies, SMHCA's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

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

## **Item 15: Voting Client Securities**

SMHCA's authority to vote client proxies and corporate actions is established by SMHCA's investment advisory agreements or comparable documents. SMHCA's policy is to vote proxies and corporate actions in the best economic interests of its clients. SMHCA endeavors to resolve any conflicts of interest exclusively in the best economic interests of clients.

SMHCA will convene the Compliance Committee to make voting decisions when potential material conflicts of interest exist. If the Committee is unable to reach a unanimous decision, SMHCA will, at its own expense, engage an outside proxy voting service or consultant to make a recommendation and SMHCA will vote in accordance with that recommendation.

Upon request, SMHCA will provide clients with a copy of its procedures regarding proxy and corporate action voting and information on how the client's proxies were voted.

SMHCA does not direct clients' participation in class action lawsuits. SMHCA will determine whether to return any documentation inadvertently received regarding clients' participation in class action lawsuits to the sender, or to forward such information to the respective clients.

Any request for information about proxy voting, corporate actions, or class action lawsuits should be promptly forwarded to the Chief Compliance Officer, David Hunt ([dhunt@wealthtrust.com](mailto:dhunt@wealthtrust.com)), who will respond to any such requests.

## **Item 16: Financial Information**

Registered investment advisers are required to provide clients with certain financial information or disclosures about its financial condition. Currently, SMHCA has no does not have any financial condition that is reasonably likely to impair its ability to meet contractual and fiduciary commitments to clients. SMHCA has not been the subject of any bankruptcy proceeding.