



**SMH CAPITAL ADVISORS, INC.**

**A Subsidiary of Sanders Morris Harris Group**

**Cummer Moyers Financial Services Program (“CMFS Program”)**

**Wrap Fee Program Brochure**

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This wrap fee program brochure provides information about the qualifications and business practices of SMH Capital Advisors, Inc. (“SMHCA”). If you have any questions about the contents of this brochure, please contact the Compliance Department at the above telephone number. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

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

## **Material Changes**

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC rules. This wrap fee program brochure dated March 30, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this item will discuss only specific material changes that are made to the wrap fee program brochure and will provide clients with a summary of such changes. We will also reference the date of our last annual update to our wrap fee program brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC rules, we will ensure that you receive a summary of any material changes to this and subsequent wrap fee program brochures on or before April 30 of each year. We may further provide other ongoing disclosure information about material changes as necessary.

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

Currently, our wrap fee program brochure may be requested by contacting Kristi Heffron, IA Compliance Officer, at 800-278-4308 or [Kristi.Heffron@smhgroup.com](mailto:Kristi.Heffron@smhgroup.com). Our brochure is also available on our web site [www.smhca.com](http://www.smhca.com), also free of charge.

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

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## **Services, Fees and Compensation**

### **Services**

For clients that would like to access strategies not offered through the SMHCA Separately Managed Account Program, or for those clients who wish to access SMHCA strategies without the use of a third-party advisor or platform, the CMFS Program is available. A client participating in the CMFS Program enters into a CMFS Program Agreement with SMHCA. Clients wishing to participate in the CMFS Program must utilize the custody and clearing services of First Clearing, LLC, ("FCC"). The minimum investment required to establish a program account depends on the selected strategy as outlined on the CMFS Program Agreement. SMHCA may waive the minimum account size at its discretion.

Cummer Moyers Financial Services Program ("CMFS Program") is a wrap fee program sponsored by SMHCA. The client retains SMHCA for the purpose of opening an investment advisory account ("Account") and participating in the CMFS Program. SMHCA will invest participating client assets in one of the strategies described below in exchange for an all inclusive asset-based fee ("Wrap Fee").

SMHCA and its Investment Advisor Representatives ("IARs") consider the client's financial situation, goals and investment objectives, risk tolerance, time horizon and other relevant factors, as described by the client in assisting the client to select a strategy. The client should inform IAR if changes occur in investment objectives or financial situation, or if the client wishes to impose reasonable restrictions on the account(s) which are not fundamentally inconsistent with the client's investment objective or the nature or operation of CMFS Program. Not less than annually, client portfolios are reviewed with clients by IAR 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.

### **Fees and Compensation**

#### **Wrap Fee**

The Wrap Fee includes a portfolio administration fee which includes discretionary investment advice. The other costs included are brokerage commissions, transaction costs and clearance and custody of assets.

The Wrap Fee is charged quarterly, in advance. Fees will be deducted directly from client's managed account. Quarterly fees are payable on the first business day of each calendar quarter, based on the market value, including accrued interest and any cash or money balances of the account, 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.

Fees are negotiable. When calculating the Wrap Fee, multiple accounts held within the same family are aggregated to determine the lowest percentage fee if all accounts are managed as one relationship.

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.

The Wrap Fee is based on the amount of money the client invests in the Program 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.

### **CMFS Program Wrap Fees**

<b>Assets Under Management</b>	<b>SMHCA Diversified Income with Individual Bonds, SMHCA Diversified Income with SMHRT and SMHCA Diversified Income Socially Responsible</b>	<b>SMHCA High Income and SMHCA High Income Socially Responsible</b>	<b>SMHCA Core Plus Intermediate Term</b>
Up to \$1 million	1.25%	1.25%	.95%
Next \$4 million	1.00%	1.00%	.85%
Next \$5 million	0.80%	0.80%	.75%

### **Payment Method**

The client authorizes SMHCA to collect the Wrap Fee and authorizes the custodian to deduct the Wrap Fee from the account under the CMFS Program Agreement. All fees will be noted on the client's custodial account statements. If the account does not hold cash or money market balances sufficient to cover the Wrap Fee, the client may deposit additional funds by the due date. If no such deposit is made, SMHCA will liquidate securities in the account in amounts sufficient to cover such fees. Liquidation may cause the client to incur taxes and other costs.

### **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 CMFS 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.

### **Other Fees and Expenses**

SMHCA may execute client transactions through its affiliated broker/dealer, Sanders Morris Harris Inc. ("Sanders Morris Harris"), a member of FINRA and SIPC. Sanders Morris Harris receives 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. This practice may present a conflict of interest as it may provide an incentive for SMHCA to recommend a product based on the possible compensation payable to Sanders Morris Harris. Further, in its capacity as sub-adviser or adviser to a mutual fund, SMHCA may receive management fees and Sanders Morris Harris may receive 12b-1 fees on the same mutual fund assets.

Each mutual fund in which the client may invest in the account also bears its own fees and expenses as disclosed in the applicable prospectus or product description. The Wrap Fee does not cover fees or expenses charged by

any mutual fund held in the account. In addition, the Wrap Fee does not include debit balances, wire transfer fees, overnight check fees, margin interest, account transfer fees, IRA and retirement plan fees, SEC fees, 12b-1 fees for certain money market funds, or other fees or taxes required by law.

Client accounts will be held at First Clearing, LLC. ("FCC") FCC automatically sweeps un-invested cash into a variety of money market funds, including FDIC-insured funds. FCC does not charge a fee for this sweep service; however, money market funds do have internal fees and expenses. SMHCA will receive monthly compensation based on the average amount of client assets in the money market funds.

## **Account Requirements and Types of Clients**

### **Account Requirements**

The minimum investment required to establish a program account depends on the selected strategy as outlined on the CMFS Program Agreement. SMHCA may waive the minimum account size at its discretion. The client may make additions to or withdrawals from the account at any time. Withdrawals which cause material reductions in the value of the account could cause SMHCA to terminate the account. The CMFS Program is designed as long-term investment vehicle and asset withdrawals may impair the ability to achieve client's investment objectives.

Clients wishing to participate in the CMFS Program must utilize the custody and clearing services of FCC. Sanders Morris Harris, the affiliated broker/dealer of SMHCA has entered into an agreement with FCC, an unaffiliated broker/dealer to provide the following services: (a) maintain custody of all account assets; (b) perform clearance of all purchase and sale orders as directed to CMFS; (c) perform all custodial functions customarily performed with respect to the account, including but not limited to the crediting of interest and dividends on account assets; (d) forward to Client and to SMHCA purchase and sale confirmations and account statements; (e) charge and collect Wrap Fees on SMHCA's behalf; and (f) accept, pursuant to SMHCA's instructions, deposits to and withdrawals from the account.

Client acknowledges that the Custodian does not assist Client in selecting SMHCA or any investment or in determining the suitability of investments.

The Custodian will send at least quarterly a statement to Client detailing all account activity, including deduction of the Wrap Fee. Client may elect to receive custodial account statements and confirmations electronically in lieu of paper confirmations and statements. 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.

### **Types of Clients**

The CMFS Program is offered to individuals, trusts, estates, charitable organizations, pensions, profit sharing plans and small businesses.

## **Portfolio Manager Selection and Evaluation**

The SMHCA Portfolio Management Team manages strategies for the SMHCA sponsored wrap program in the CMFS Program. SMHCA does not select or utilize the services of any third-party portfolio manager in the SMHCA sponsored wrap program.

## Performance Calculation

Using SMHCA's internal portfolio accounting software, investment performance figures are calculated according to globally accepted industry standards. CMFS Program performance information is calculated and included in composites with accounts participating in wrap fee programs not sponsored by SMHCA. The overall performance of each strategy is reviewed on a monthly basis using outlier reports. Specific policies and procedures for valuing portfolios, calculating performance and preparing compliant presentations are available upon request. SMH Capital Advisors, Inc. has been independently verified for the periods January 1, 2002 through September 30, 2009 by Ashland Partners & Company LLP. Firm-wide compliance prior to that time has been examined by a previous verifier, Hein and Associates, and is included as part of a complete disclosure presentation. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards.

## Investment Strategies

SMHCA offers six strategies in the CMFS Program: SMHCA Diversified Income with Individual Bonds, SMHCA Diversified Income Socially Responsible, SMHCA Diversified Income with SMH Representation Trust, SMHCA High Income, SMHCA High Income Socially Responsible, and SMHCA Core Plus Intermediate Term. In addition, SMHCA can create a customized account to meet the client's investment goals and objectives.

SMHCA Diversified Income with Individual Bonds: To take advantage of the benefits of combining high yield with high quality bonds, this strategy is designed to provide a strong current yield with relatively more stability than either an investment grade or high yield portfolio. Portfolios are managed to a target of, at time of investment, 50% investment grade or AAA implied bonds and 50% high yield bonds (with residual cash). SMHCA has the option of increasing the investment grade allocation to as high as 80%, at time of investment, if it determines that the market dictates such a move.

SMHCA Diversified Income with SMH Representation Trust ("SMHRT"): To take advantage of the benefits of combining high yield with high quality bonds, this strategy is designed to provide a strong current yield with relatively more stability than either an investment grade or high yield portfolio. Portfolios are managed to a target of, at time of investment, a minimum of 50% investment grade or AAA implied bonds and less than 50% high yield bonds (with residual cash). The allocation to high yield will be invested in a mutual fund managed by SMHCA. (See SMHCA Part 2A for additional disclosures regarding the Catalyst Funds) SMHCA has the option of increasing the investment grade allocation to as high as 80% if it determines that the market dictates such a move.

SMHCA Diversified Income Socially Responsible: To take advantage of the benefits of combining high yield with high quality bonds, this strategy is designed to provide a strong current yield with more stability than either an investment grade or high yield portfolio. Portfolios are managed to a target of, at time of investment, 50% investment grade or AAA implied bonds and 50% high yield bonds (with residual cash). SMHCA has the option of increasing the investment grade allocation as to high as 80%, at time of investment, if it determines that the market dictates such a move. SMHCA adheres to a socially responsible investment policy in the high yield portion of the portfolio that prohibits owning any companies that derive more than 50% of their annual revenue from the following industries: alcohol, tobacco, gambling, weapons manufacturing and 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 High Income Socially Responsible:** Portfolios are managed in the same way as the High Yield/Income except that the Socially Responsible High Yield 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 Core Plus Intermediate Term:** To take advantage of the benefits of combining high yield and high quality bonds, this strategy is designed to provide returns above traditional investment grade portfolios. The strategy allocation is from 75% to 100% investment grade or AAA implied bonds and up to 25% high yield securities. The high yield allocation of the portfolio will be implemented using the SMH Representation Trust. (See SMHCA Part 2A for additional disclosures regarding the Catalyst Funds)

## **Methods of Analysis and Investment Selection**

SMHCA supervises and directs all investment duties with respect to assets held in the account pursuant to the investment strategy selected. SMHCA invests and reinvests account assets in a broad range of investments including but not limited to investment company securities including but not limited to closed end and open end mutual funds; including no load mutual funds or loaded funds, exchange traded funds, publicly traded funds, publicly traded REIT's, common and preferred stock, American Depositary Receipts, Real Estate Investment Trusts; corporate bonds, US Government and government agency bonds, collateralized mortgage obligations, options, cash and money market funds as it deems in the best interest of the Client consistent with the investment strategy.

Pursuant to the CMFS Program Agreement that the client executes, SMHCA is granted limited discretionary authority to implement client-approved investment strategies. The client acknowledges that transactions for different Account(s) or for other clients' accounts may not be made at the same time, may be made on different days, and may be made over multiple days. In handling purchases and liquidations, SMHCA will execute transactions without regard to pending dividend or capital gains distributions, stock splits, mergers or other corporate or financial events.

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, a client 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, a client cannot request that particular securities be purchased for the account. SMHCA reserves the right, in its sole discretion, to reject any account should the client request unreasonable or overly restrictive conditions.

## **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. By keeping a focused portfolio of generally 35 issuers or less, SMHCA chooses only its “best picks” for the portfolio. This results in 25 to 35 well-researched positions, an average BB to B credit range (considered non-investment grade and highly speculative by Moody’s and S&P), and an average duration between 3 and 6 years. A single position will not account for more than 5% of an entire portfolio at cost.

## **AAA Process**

(SMHCA Diversified Income, SMHCA Diversified Income with Individual Bonds, SMHCA Diversified Income with SMHRT, SMHCA Socially Responsible Diversified Income, SMHCA Core Plus Intermediate, SMHCA AAA)

The AAA implied portion of the portfolio is comprised of Collateralized Mortgage Obligations (CMOs). 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 Investors Guide to Mortgage Backed Securities and Collateralized Mortgage Obligations (CMOs) for more information.

## **Methods and Strategies**

SMHCA analyzes securities using charting, fundamental, and technical methods. 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.

## **Trading Authorization and Reallocation**

Once a strategy has been selected, SMHCA receives discretionary authority, via the CMFS Program Agreement, 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.

SMHCA Portfolio Management Team systematically monitors investment strategies on a daily basis. Changes affecting a particular investment strategy or will trigger changes to all client portfolios following that strategy.

## **Client Securities Transactions**

SMHCA supervises and directs the investments of client accounts subject to limitations that a client may impose in writing. Absent any client imposed restrictions, SMHCA has the authority to determine, without obtaining

specific client consent, the securities and amount of such securities to be bought or sold, the broker or dealer to be used, and the commission rates to be paid.

Because SMHCA may provide the same or similar professional portfolio management services on a discretionary basis to a large number of advisory clients, SMHCA will comply with the following guidelines to ensure that each account is separately managed and to make certain that each client receives individually tailored investment advice: (i) Each client's account will be managed on the basis of the client's financial situation, investment objectives and instructions; (ii) SMHCA will obtain sufficient information from the client to be able to provide individualized investment advice; (iii) SMHCA personnel will be reasonably available to consult with the client when SMHCA is the sponsor or the portfolio manager of the account; (iv) The client will be permitted to impose reasonable restrictions on the management of the account; (v) The client will be provided with at least a quarterly custodial account statement containing a description of all account activity; and (vi) Each client will maintain a separate account retaining indicia of ownership of all securities and funds in the account, although client securities may be held in nominee or street name.

SMHCA may place securities transactions for CMFS Program accounts through its affiliated broker/dealer, Sanders Morris Harris. Sanders Morris Harris will receive commissions from securities SMHCA recommends to clients. In addition, Sanders Morris Harris may receive compensation in the form of 12b-1 fees from investment companies (mutual funds) that SMHCA recommends to clients.

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.

## **Risk of Loss**

SMHCA does not guarantee the performance of the Account or any specific level of performance. Market values of the securities in the account will fluctuate with market conditions. When the account is liquidated, it may be worth more or less than the amount invested. Investing in securities involves risk of loss that clients should be prepared to bear.

## **Investment Strategy Risks**

SMHCA is a value-oriented investment adviser that specializes in fixed income management. However, SMHCA also offers advice on: equity securities, 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 variable life insurance, variable annuities, and mutual fund shares; United States government securities; high yield corporate bonds; and collateralized mortgage obligations ("CMOs").

There are specific risks associated with investing in high yield bonds and CMOs. An Investors 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.

**Mortgage Risk of AAA CMOs.** CMOs carry interest rate and prepayment risks although they have an implied AAA-rated (investment grade). 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.

**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 are priced less accurately and are typically valued for larger size transactions..

**Economic Uncertainty/Asset Class Cyclicity.** 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 'alpha' over a complete cycle. Less names, or a more concentrated portfolio, can bring increased volatility on the upside and downside versus the an index or the average high yield mutual fund which might typically holds hundreds of different bonds.

SMHCA's fixed income 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.

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

In some cases, SMHCA has entered into performance fee arrangements with qualified clients: such fees are subject to individualized negotiation with each client. 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.

## **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.

## **Client Information Provided to Portfolio Managers**

SMHCA will obtain information prior to opening an account regarding the client's financial situation, goals and investment objectives, risk tolerance, time horizon and other relevant factors, as described by the client in selecting the client's asset allocation model. SMHCA will also inquire as to the client's interest in imposing any reasonable restrictions on the management of the account. The Portfolio Management Team will be provided with information as to the strategy selected by the client and will also be advised of any investment restrictions placed on the account.

The Portfolio Management Team will be advised anytime a client informs the IAR of a change in investment objective or financial circumstances that would result in a change in portfolio selection. The IAR will contact the client at least annually to determine if any changes have occurred that may affect the ongoing suitability of the portfolio selected and to determine if any new restrictions should be imposed on the account.

In addition, not less than annually, the IAR will review client portfolios with clients to ensure that the 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.

## **Client Contact with Portfolio Managers**

Clients are generally free to contact their IAR at any time during normal business hours via telephone, facsimile, mail or email. In-person meetings should be scheduled in advance to ensure availability. A client can arrange a dialogue with a member of the Portfolio Management Team if necessary by contacting the client's IAR to discuss the proposed agenda items and to arrange for a mutually agreeable date and time.

## **Additional Information**

### **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.

### **Other Financial Industry Activities and Affiliations**

Sanders Morris Harris, an affiliated broker/dealer, may receive commissions and fees from securities transactions that SMHCA recommends to clients. The commissions and fees charged by Sanders Morris Harris 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.

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 may use Catalyst Funds in CMFS 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 management fee charged to client accounts. Such a structure may create a conflict of interest.

SMHCA may select Class C shares of mutual funds for client accounts, including the Catalyst Funds. Class C shares will typically have a 12b-1 fee and a sales load, resulting in higher commissions and fees paid to Sanders Morris Harris and the registered representative.

SMHCA IARs may also be licensed insurance agents for HWG Insurance Agency Inc, a subsidiary of Sanders Morris Harris and an SMHGI related entity. 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.

Jeff Cummer is the President and Senior Portfolio Manager of SMHCA. Mr. Cummer is the Chairman of the Board of Capital Financial Holdings, Inc. (formerly Integrity Mutual Funds), a financial services company.

Mr. Cummer is on the Board of Directors and an executive of Xponential Inc., which owns and operates PawnMart Inc., a chain of pawn stores, and Mr. Cummer and Xponential are significant shareholders of Capital Financial Holdings, Inc.

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

### **Code of Ethics**

SMHCA has adopted a Code of Ethics (the “Code”) that is available upon request from the Compliance Officer.

The Code is designed to ensure that no SMHCA employee breaches the fiduciary duty to any client and that no SMHCA employee improperly trades ahead of client accounts or takes an investment opportunity which could otherwise go to a client.

The Code requires, among other things, that:

- All employee accounts, for which the employee has any influence or control, unless specifically exempted in writing by the Compliance Officer, must be held at First Clearing, LLC.
- Employees are prohibited from purchasing IPOs.
- Employees are prohibited from buying or selling a security on the same day as a client before the client’s order is either executed or withdrawn.
- Investment opportunities must be offered to clients first, before SMHCA or its employees may act upon them.

Certain trades are not subject to specific reporting provisions of the Code. These transactions include: (i) purchases or sales effected in any account over which the employee has no direct or indirect influence or control; (ii) purchases that are part of an automatic dividend reinvestment plan; and (iii) purchases and sales of certain securities (shares of any open-end investment company not affiliated with SMHCA, United States Government securities, bankers acceptances, repurchase agreements, bank certificates of deposit and commercial paper).

SMHCA has also adopted an insider trading policy that applies to all employees of SMHCA. The policy prohibits employees, while in possession of material, non-public information, from trading securities or recommending transactions, either personally or on behalf of others (including any SMHCA client), or from communicating material, non-public information to others in violation of applicable securities laws.

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.

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

SMHCA IARs may also be registered representatives of Sanders Morris Harris and may receive commission on securities transactions. As registered representatives of Sanders Morris Harris, IARs may effect transactions in which the client's securities are sold to or bought from a Sanders Morris Harris brokerage customer (an agency cross transaction). Agency cross transactions will only be effected for those clients who have executed a written consent. Written consent will be obtained only after the client has received full written disclosure that, with respect to agency cross transactions, the IAR will act as broker, receive commissions from, and potentially have a conflicting division of loyalties and responsibilities regarding, both parties to such transaction. Each client will receive a written confirmation at or before the completion of each such transaction. The confirmation will include a statement of the nature of such transaction; the date the transaction took place; an offer to furnish, upon request, the time the transaction took place and the source and amount of any other remuneration received or to be received by the IAR in connection with the transaction; and an annual disclosure statement identifying the total number of such transactions and the total amount of all commissions or other remuneration received in connection with such transactions during the period. Under no circumstances will an IAR make recommendations to parties on both sides of the transaction. Client's written consent may be revoked at any time by written notice to SMHCA.

IARs 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.

## **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 investment 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.

## **Nature and Frequency of Client Reports**

The nature and frequency of reports to clients are determined primarily by the particular needs of each client. Generally, 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.

## **Client Referrals and Other Compensation**

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.

## **Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about SMHCA's financial condition. SMHCA is a wholly owned subsidiary of Sanders Morris Harris Group Inc. ("SMHGI"). Neither SMHCA nor SMHGI has any financial condition that is likely to impair SMHCA's ability to meet its contractual and fiduciary commitments to clients. SMHCA has not been the subject of any bankruptcy proceeding.



# **Privacy Policy**

## **Your Privacy is Important to Us**

At Sanders Morris Harris we recognize the importance of protecting your privacy. We strive to maintain the privacy of your personal nonpublic information while we help you achieve your financial objectives. The following disclosure explains what nonpublic personal information we collect about you, why we collect it, what we do with that information, and the steps we have put in place to protect the nonpublic personal information you have entrusted to us.

## **Information We Collect**

To serve you better and to manage our business, it is important that we collect and maintain accurate information about you. We collect nonpublic personal information about you, including, your name, address, Social Security number, and financial information, from the following sources:

- From you on the telephone, in person, or through mail;
- From you on applications or other forms you complete;
- Through transactions in your accounts with us, our affiliates, or others;
- From our internet website; and
- From third parties with whom we deal, such as a consumer reporting agency, to verify information we receive from you and your creditworthiness.

## **Protecting Your Information**

We restrict access to your nonpublic personal information to those employees and agents who need access to the information to perform their job functions or provide products or services to you. We protect your nonpublic personal information from access by third parties by maintaining physical, electronic, and procedural safeguards. We strive to ensure the protection of client personal information from receipt through destruction.

## **Information We Disclose to Third Parties**

We do not disclose any of your nonpublic personal information to non-affiliated third parties without your consent except as required or permitted by law or unless those parties are providing services or support to us and have agreed to keep your nonpublic personal information confidential. Examples of these parties include the companies or individuals we use to (a) execute and clear our securities transactions, (b) prepare and mail your account statements, (c) help us verify information, including identity, (d) provide us with consulting, legal, and accounting services, (e) help us develop, operate, and maintain our services and systems, and (f) provide services and products to you, such as mutual fund companies, investment management program sponsors, investment managers and advisers, and insurance companies. Even if you cease to transact business with us, we will continue to apply the same protections to your nonpublic personal information as we did when you were an active client.

## **The Sanders Morris Harris Group**

The Sanders Morris Harris Group is a family of related companies that are owned in whole or in part by Sanders Morris Harris Group Inc. (Nasdaq: SMHG). These affiliated companies allow us to provide greater value to our customers, employees, and shareholders. To provide you with the products and services you request, to serve you better, to manage our business, and as otherwise permitted or required by law, we may disclose personal

information we collect about you to other Sanders Morris Harris Group companies. All of our affiliates follow the same privacy policies.

### **Changes to Our Privacy Policy**

We maintain a public internet site at [www.smhgroup.com](http://www.smhgroup.com). While this policy is delivered annually in writing, the policy may change from time to time. We will notify you of any changes. You can always review our current policy, and the names of the Sanders Morris Harris Group companies to which the policy applies, online. Following is a list of the Sanders Morris Harris Group companies to which this notice applies:

- Concept Capital, a division of Sanders Morris Harris Inc.
- Cummer/Moyers Capital Advisors
- Cummer/Moyers Financial Services
- HWG Insurance Agency
- Kissinger Financial Services
- Leonetti & Associates, LLC
- Miller-Green Financial Services, Inc.
- Sanders Morris Harris
- Sanders Morris Harris Inc.
- Sanders Morris Harris Group Inc.
- Signet Healthcare Partners, LLC
- SMH Asset & Wealth Management
- SMH Capital Advisors, Inc.
- SMH Partners
- SOF Management, LLC
- The Dickenson Group, LLC
- The Rikoon Group, LLC