



# **SMH CAPITAL ADVISORS, INC.**

**A Subsidiary of Sanders Morris Harris Group**

## **Investment Advisory Services Brochure**

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This 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 us at 817-731-4308. 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.

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).

## **Material Changes**

On July 28, 2010, the United State Securities and Exchange Commission (the “SEC”) published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC rules. This brochure dated March 31, 2011, is a new document prepared according to the SEC’s new requirements and rules. As such, this brochure 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 Brochure and will provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered to deliver 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 materials changes to this and subsequent 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, upon your request, with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our 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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## **Advisory Business**

### **History of SMH Capital Advisors, Inc.**

SMH Capital Advisors, Inc. (“SMHCA”) is registered as an investment adviser with the United States Securities and Exchange Commission (“SEC”) (File No. 801-54089). SMHCA is a wholly-owned subsidiary of Sanders Morris Harris Group Inc. (“SMHGI”) (Nasdaq: SMHG). SMHCA, which was formerly Cummer/Moyers Capital Advisors, Inc. (“Cummer/Moyers”), was acquired by SMHGI in 2000. Cummer/Moyers was formed in 1995 by Jeffrey Cummer and Dwayne Moyers. Following the acquisition by SMHGI, the name was changed to SMHCA from Cummer/Moyers.

### **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.

### **Investment Supervisory Services**

#### **Portfolio Management**

#### **Individual Account Management**

SMHCA offers discretionary portfolio management services through three programs: (1) the Separately Managed Account Program (“SMA Program”); (2) the Cummer/Moyers Financial Services Program (“CMFS Program”); and (3) the Institutional Program. In all three programs, clients’ assets are invested in various securities, including mutual funds, common and preferred stock, American Depositary Receipts, Real Estate Investment Trusts, corporate bonds, US Government and government agency bonds, and collateralized mortgage obligations. SMHCA’s methodology is the same for 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 the client’s 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, 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.

### **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 investment advisor. The third-party advisor recommends that the client invest all or a portion of the client's assets in an SMHCA Separately Managed Account. SMHCA offers six investment strategies in the SMA Program: SMHCA High Income, SMHCA Socially Responsible High Income, SMHCA Diversified Income, SMHCA Socially Responsible Diversified Income, SMHCA AAA, and SMHCA Total Return Income Unconstrained.

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.

**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 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 and pornography.

**SMHCA Diversified Income:** 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 a high yield portfolio. Portfolios are managed to a target at time of investment of 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 Socially Responsible Diversified Income:** 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 at time of investment of 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. The high yield portion of the portfolio 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 AAA:** Portfolios are 100% invested in either an AAA rated or an AAA implied bonds (with residual cash). 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. While

there are no guarantees, this strategy attempts to provide an 8% - 10% total return over a 10-year period from income and/or capital appreciation.

### **Cummer/Moyers Financial Services Program (CMFS 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 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.

### **SMHCA Sponsored Wrap Program**

SMHCA offers six strategies in a wrap fee structure in the CMFS Program: SMHCA Diversified Income with Individual Bonds, SMHCA Socially Responsible Diversified Income, SMHCA Diversified Income with SMH Representation Trust, SMHCA High Income, SMHCA Socially Responsible High Income, and SMHCA Core Plus Intermediate Term. The wrap fee for these strategies include, among other costs, brokerage commissions and a portfolio administration fee. For more information about the wrap fee structure, please reference the SMHCA Part 2A Appendix 1 of Form ADV.

**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 "Catalyst Funds" section for important disclosure information regarding the SMH Representation Trust.) 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 Socially Responsible Diversified Income:** 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 Socially Responsible High Income:** Portfolios are managed in the same way as the High Yield/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 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 up to 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 “Catalyst Funds” section for more important disclosure information regarding the SMH Representation Trust.)

### **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. 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.

In addition, the CMFS Program offers the following five strategies to clients that opt to pay separate portfolio administration and transaction fees: SMHCA Growth, SMHCA Balanced Growth, SMHCA Balanced Growth & Bonds, SMHCA AAA, and SMHCA Total Return Income.

**SMHCA Growth:** Portfolios are 100% 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.

**SMHCA Balanced Growth:** Portfolios are 100% invested in equity 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.

**SMHCA Balanced Growth & Bonds:** Portfolios are 100% invested in equity 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.

**SMHCA AAA:** Portfolios are 100% invested in investment grade or AAA implied bonds (with residual cash). With this style, SMHCA seeks 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:** While there are no guarantees, this strategy attempts to provide an 8% - 10% total return from income and/or capital appreciation over a 10-year period. When chosen as part of the CMFS Program, this strategy will be implemented using mutual funds. SMHCA may act as sub-advisor for some of the mutual funds used in the allocation including the Catalyst/SMH High Income Fund and the Catalyst/SMH Total Return Income Fund. (See “Catalyst Funds” section for important disclosure information regarding the Catalyst Mutual Funds.)

### **Programs Not Sponsored by SMHCA**

As part of the CMFS Program, SMHCA may assist clients in selecting third-party money managers to manage clients’ accounts. The fees charged by these managers are in addition to the fees charged by SMHCA, as well as any brokerage and custody fees that may be incurred.

### **FundSource, Allocation Advisors, and Private Investment Management Program (“the Programs”)**

SMHCA has entered into an agreement with Wells Fargo Advisors, LLC (“WFA”), a registered investment adviser, pursuant to which WFA provides advisory and/or other services with respect to the Programs. WFA provides advisory and/or other services to SMHCA with respect to all of the Programs but provides investment advice that is tailored to the needs of a particular client only with respect to Allocation Advisors and FundSource. Clients should obtain and read the Wells Fargo Advisors, LLC Disclosure Documents for each program (Part 2A Appendix 1 of Form ADV) and/or the Part 2A of Wells Fargo Advisors’ Form ADV.

Participating clients must utilize the custody and clearing services of First Clearing, LLC, (“FCC”). FCC maintains, in an SMHCA account, custody of all account assets. Pursuant to a clearing agreement between SMHCA and FCC, FCC performs custodial functions for SMHCA, which, among other things, will include crediting of interest and dividends on account assets and crediting of principal on called or matured securities in the account, together with other custodial functions customarily performed with respect to securities brokerage accounts. FCC also forwards confirmations and statements to SMHCA. FCC or its agent also performs cashiering and invoicing responsibilities with respect to the Programs, which includes the charging and collection of account fees and the processing, pursuant to SMHCA instructions, of deposits to and withdrawals from Program accounts. Clients expressly authorize FCC or its agent to debit fees of SMHCA, WFA, FCC and any applicable investment advisers. FCC provides SMHCA with certain administrative, computer software and documentation services in connection with Program services. FCC does not provide consulting, advisory or evaluation services to SMHCA’s clients with respect to the Programs. SMHCA compensates FCC pursuant to a brokerage clearance fee schedule. SMHCA is not related to or affiliated with WFA or First Clearing, LLC.

A brief description of the Programs appears below. For a full description of the Programs, technology used, fees charged and services provided please refer to the Wells Fargo Advisors, LLC Part 2A Appendix 1 of Form ADV and/or Part 2A of Form ADV.

**FundSource Consulting Service (“FundSource”)** - SMHCA will assist each client in reviewing the client’s investment objectives, including any reasonable restrictions with respect to mutual funds to be invested in client’s account and in selecting various mutual funds and certain money market funds. WFA provides a universe of recommended model investment portfolio allocations, referred to as Optimal

Blends. WFA accepts instructions from a client with respect to a Custom Blend in various FundSource Funds. WFA automatically rebalances client accounts to the Optimal Blend chosen. A portfolio is designed for a specific investor. The minimum investment is \$25,000.

Allocation Advisors - WFA provides SMHCA with model investment portfolios based on certain established criteria, based on its evaluation of a client's financial goals, circumstances and risk tolerances. The portfolios are designed for a specific investor; SMHCA then assists a client in choosing the most appropriate model. WFA invests and reinvests for each client on a discretionary basis in the model securities including exchange traded funds and exchange traded notes and/or cash. The minimum investment ranges from \$25,000 for strategic portfolios to \$50,000 for tactical portfolios.

Private Investment Management Program ("PIM") - Through PIM, certain selected investment adviser representatives (IARs) of SMHCA provide investment advisory and brokerage services to clients on a discretionary basis. The IARs develop disciplined portfolios based on certain established PIM guidelines and the client's investment objectives and individual needs as established in investment portfolio and strategy criteria. Through the oversight of the SMHCA, PIM provides monitoring and reporting of portfolio performance to clients on a periodic basis. The PIM program is designed to provide a disciplined advisory approach to meet client objectives and needs, yet with relatively few restrictions so that the IAR may develop the program for a wide variety of its client accounts.

There is one strategy offered through the PIM program.

The Tactical Growth Strategy: Portfolio is managed using a Point and Figure Tactical methodology. Using technical research services, the manager allocates a portfolio among those asset classes and sectors displaying better relative strength compared to other asset classes and sectors available in the market.

The portfolio may include money market funds, exchange-traded fund shares, closed-end funds, and mutual fund shares from WFA's Allowable List. This Allowable List includes only open-end mutual funds that offer shares at net asset value through advisory programs, such as those described in WFA's Part 2A Appendix 1 of Form ADV. Some of the funds may be advised by, or otherwise affiliated with, WFA or FCC.

### **Genworth Advisor Model Platform**

SMHCA also offers a wrap fee program sponsored by Genworth Financial Wealth Management, Inc. ("Genworth"), an investment adviser firm registered with the SEC. Under this program, Genworth makes available their account management system used to assist the IAR in selecting the risk/return profile (ranging from Conservative to Maximum Growth) and asset allocation approach (ranging from Strategic Asset Allocation to Absolute Return Allocation) that is most appropriate for the client. Genworth makes a number of different Investment Solutions available to clients through the platform. These include a variety of asset allocations created and managed by Genworth Portfolio Strategists on a discretionary basis and comprised of open-end mutual funds, ETFs, variable annuity subaccounts, and individual securities.

Moreover, within this program, Genworth delivers a multi-product online platform which includes Strategic Asset Allocation, Tactical Unconstrained Asset Allocation, Tactical Constrained, Absolute Return Strategies, Manager Select, Individually Managed Accounts and Administrative Accounts. Each of these products may offer one or more Portfolio Strategists and/or Investment Solutions. The Investment Solutions are AssetMark Funds (AMF), Active Return Opportunities (ARO), Consolidated

Managed Accounts (CMA), Distribution Strategies (DS), Exchange Traded Funds (ETF), Genworth Multiple Strategies (GMS), Individually Managed Accounts (IMA), Mutual Funds (MF), Privately Managed Portfolios (PMP), Preservation Strategy (PS), Principal Return Exposure Strategy (PRX), Unified Managed Accounts (UMA).

The non-discretionary advisory services of the IAR within this program include, but are not limited to, development of the client's financial profile; formulation of investment objectives and any investment restrictions; selection of investments, Investment Solutions, and/or Portfolio Strategists; portfolio reviews; and various administrative services.

Please refer to Genworth's Form ADV Part 2A for complete details of this program.

### **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 six investment strategies in the Institutional Program: SMHCA High Yield, SMHCA Socially Responsible High Yield, SMHCA Diversified Income, SMHCA Socially Responsible Diversified Income, SMHCA AAA, and SMHCA Total Return Income Unconstrained.

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 and pornography.

SMHCA Diversified Income: To take advantage of the benefits of combining high yield and 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 to as high as 80%, at time of investment, if it determines that the market dictates such a move.

SMHCA Socially Responsible Diversified Income: To take advantage of the benefits of combining high yield and 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 to as 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 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 AAA:** Portfolios are 100% invested in investment grade or AAA implied bonds (with residual cash). With this style, SMHCA seeks 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. While there are no guarantees, this strategy attempts to provide an 8% - 10% total return over a 10 year period from income and/or capital appreciation.

### **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"). As participants in wrap fee programs, clients pay the Sponsor an asset-based fee that includes, 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.

For clients participating in Advisor Platform Programs, SMHCA offers seven investment strategies: SMHCA High Income, SMHCA Socially Responsible High Income, SMHCA Diversified Income with Individual Bonds, SMHCA Diversified Income using SMH Representation Trust ("SMHRT"), SMHCA Socially Responsible Diversified Income, SMHCA AAA, and SMHCA Core Plus Intermediate. 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 Yield/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 Diversified Income with Individual Bonds:** (Also listed as Diversified Income): To take advantage of the benefits of combining high yield and 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 can offer. 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 to increase 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 and 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 can

offer. 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 may be in a mutual fund managed by SMHCA. (See “Catalyst Funds” section for important disclosure information regarding the SMH Representation Trust.) SMHCA has the option to increase the investment grade allocation to as high as 80%, at time of investment, if it determines that the market dictates such a move.

**SMHCA Socially Responsible Diversified Income:** To take advantage of the benefits of combining high yield and 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 can offer. 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 adheres to a socially responsible investment policy in 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 and pornography.

**SMHCA AAA:** Portfolios are 100% invested in investment grade or AAA implied bonds (with residual cash). This style seeks to take advantage of yield spread differentials within the investment grade markets. This strategy is for clients seeking income and capital preservation.

**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 “Catalyst Funds” section for important disclosure information regarding the SMH Representation Trust.)

### **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.

### **Catalyst Funds**

SMHCA is the sub-adviser for two series of the Catalyst Funds, an open-end investment management company registered with the SEC, commonly referred to as a mutual fund. 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, Catalyst Capital Advisors LLC.

In March 2008, SMHCA entered into a Joint Venture Agreement with Catalyst Capital Advisors LLC (“CCA”), the sponsor of the Catalyst Funds, in connection with the creation of the Catalyst/SMH High Income Fund (formerly Catalyst High Income Fund), and the Catalyst/SMH Total Return Income Fund (formerly Catalyst Total Return Fund) (the “Funds”). Pursuant to the Joint Venture Agreement, SMHCA agreed to (a) act as sub-adviser for the Funds, (b) make a capital contribution to CCA sufficient to pay

certain start-up expenses of the Funds and (c) pay a portion of the up-front commissions paid to brokers on sales of Class C shares and to wholesalers as compensation for share purchases in the 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 Inc., 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 can create a conflict of interest when recommending investments. See the Fund Prospectus for a full description of the management fees and expenses related to the Funds.

SMHCA is also the investment advisor to the SMH Representation Trust (“SMHRT Fund”), a series of the Catalyst Funds, which is a non-diversified open-end management investment company, commonly known as a mutual fund. Shares of the SMHRT Fund may be purchased by or on behalf of clients of “wrap account” programs sponsored by SMHCA, its affiliates or a broker/dealer that has an agreement with SMHCA. The SMHRT Fund will not charge any fees or expenses. SMHCA will waive all advisory fees to the Fund and will absorb all expenses of operating the SMHRT Fund through October 31, 2011 and thereafter so long as the SMHRT Fund is used exclusively for wrap programs and certain institutional accounts. A “Management Fee” of 0.55% of the average daily net assets is the fee that SMHCA would charge if it were to charge the SMHRT Fund for its management services. Since the SMHRT Fund is offered only in wrap fee programs, participants pay a “wrap” fee to the sponsor of the program, a portion of which is paid to SMHCA pursuant to agreements between SMHCA and the program sponsors.

### **3 to 1 Strategic Income Fund**

The 3 to 1 Strategic Income Fund’s assets are managed by multiple sub-advisers under the general supervision of Envestnet Asset Management, Inc., the fund’s adviser. Envestnet Asset Management is responsible for establishing the 3 to 1 Strategic Income Fund’s asset allocation strategy. SMHCA has been engaged as a sub-adviser and receives a fee of 0.35% of the average current net assets of the portfolio from the investment manager.

The 3 to 1 Strategic Income Fund seeks to provide total return, comprised of long-term capital appreciation and income.

### **Philadelphia Financial**

SMHCA provides investment management services for Philadelphia Financial Life Assurance Company Separate Accounts. The Separate Account consists, in part, of a managed investment account to which the owners of certain Philadelphia Financial Life Assurance Company (“PFL”) variable products will allocate assets for SMHCA to manage. SMHCA will make investment decisions for the investment account and place orders to purchase and sell securities for the investment account. For these investment management services, SMHCA will receive a fee ranging from 0.35% - 0.55%, depending upon strategy chosen, calculated as an annual percentage of the average net assets of the investment account. Owners of the PFL products may allocate assets to four strategies. Total Return Income, High Yield, Diversified Income, and Core Plus Intermediate.

**At December 31, 2010, SMHCA manages approximately \$1.7 billion in client assets on a discretionary basis and \$0 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, 2010.**

## **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 accounts(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. 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, SMHCA may receive management fees and Sanders Morris Harris may receive 12b-1 fees on the same mutual fund assets.

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

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, sub-adviser 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.

## 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.

## 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.

<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</b>	<b>SMHCA Total Return Income Unconstrained</b>
First \$25 million	0.30%	0.70%	0.80%	1.00%
Next \$25 million	0.275%	0.60%	0.70%	.90%
Next \$50 million	0.25%	0.50%	0.60%	.80%
Over \$100 million	0.20%	0.40%	0.50%	.70%

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 Item 6 for more information about these arrangements.

## CMFS Program Fee Schedules

### SMHCA Sponsored Wrap Program Fees

<b>Assets Under Management</b>	<b>SMHCA Diversified Income with Individual Bonds, SMHCA Diversified Income with SMHRT and SMHCA Socially Responsible Diversified Income</b>	<b>SMHCA High Income and SMHCA Socially Responsible High Income</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%

For some of the strategies listed above, clients can elect to “un-wrap” the fee and pay the commissions and portfolio administration fees separately. 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.

### SMHCA Un-Wrapped Program Fees

For the strategies listed below, clients pay commissions and portfolio administration fees separately. 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>Assets Under Management</b>	<b>SMHCA Diversified Income, SMHCA Socially Responsible Diversified Income, SMHCA High Income, SMHCA Socially Responsible High Income</b>	<b>SMHCA Growth, SMHCA Balanced Growth and SMHCA Balanced Growth &amp; Bonds</b>	<b>SMHCA AAA</b>	<b>SMHCA Total Return Income</b>
Less Than \$500,000	0.50%	0.20%	0.10%	0.50%
More Than \$500,000	0.50%	0.15%	0.10%	0.50%

### **Programs Not Sponsored by SMHCA Fees**

#### **FundSource, Allocation Advisors, and Private Investment Management Program (“the Programs”)**

For the FundSource and Allocation Advisors Programs a wrap fee is charged for SMHCA’s consulting and FCC’s brokerage services, as well as the services of any adviser hired to provide portfolio advice and administrative services to the particular account.

Fees for the PIM program cover advisory services, performance measurement, transaction costs, custody services and trading. The fees do not cover the fees and expenses of any underlying mutual funds purchased in the account. Fees are based on the assets in the account and are assessed quarterly in advance. If the client terminates the PIM Program, a pro-rata refund will be provided for any unused fees. A minimum fee of \$1,000 annually applies for this program.

SMHCA receives a portion of the fees charged for program services in connection with the introduction of accounts as well as for providing client-related services within the Programs. The fees may be negotiable. The fees for these programs range from 1.15% to 1.75% annually.

<b>Assets Under Management</b>	<b>FundSource</b>	<b>Allocation Advisors</b>	<b>PIM</b>
Up to \$250,000	1.75%	1.75%	1.75%
Next \$750,000	1.45%	1.45%	1.45%
Over\$1 million	1.15%	1.15%	1.15%

A portion of the fees charged by SMHCA for Program services may be paid to SMHCA in connection with the provision of investment advice and/or client-related services within those programs. This compensation may be more or less than if clients paid separately for investment advice, brokerage and other services.

As a shareholder of a money market fund or mutual fund, in addition to program fees paid by a client to SMHCA, a client bears a proportionate share of the fund’s expenses, including the investment management fees that are paid to the fund’s investment adviser, and any other charges levied by a fund (e.g., redemption fees). For more information about fund expenses, see the funds prospectus. The wrap fee also does not include fees related to adoption, maintenance, and closure of retirement accounts.

## **Genworth Advisor Model Platform**

Clients participating in the platform pay SMHCA an overall Total Program Advisory Fee that includes a Platform Fee, paid to Genworth for participation in the platform. While the overall Total Program Advisory Fee, shared by SMHCA, the IAR, and Genworth, is negotiable, the Platform Fee, shared by Genworth and the Portfolio Strategists, is non-negotiable. The quarterly fees for the platform are payable in advance and follow the fee schedules listed below:

### **Total Program Advisory Fee**

<b>Total Assets</b>	<b>Maximum Advisory Fee as a % of Asset Value</b>
First \$500,000	3.00%
Next \$500,000	2.25%
Next \$1,000,000	1.90%
Next \$2,500,000	1.70%
Next \$5,000,000	1.50%

### **Platform Fee Schedules**

<b>Strategic</b>			
<b><u>Portfolio Strategist</u></b>	<b><u>Investment Solution</u></b>	<b><u>Platform Fee Range</u></b>	<b><u>Custodial Fees</u></b>
Callan Associates	AssetMark Funds	0.0%	\$150
Callan Associates	Distribution Strategies	0.0%	\$150
Callan Associates	Consolidated Managed Accounts	0.80% - 0.65%	0.15% - 0.05%
New Frontier	Asset Mark Funds	0.0%	\$150
New Frontier	Exchange Traded Fund	0.45% - 0.25%	0.25% - 0.05%
New Frontier	Distribution Strategies	0.45% - 0.25%	0.25% - 0.05%
<b>Tactical Unconstrained</b>			
Eaton Vance	Mutual Funds	0.45% - 0.25%	\$150
GFAM	UMA ARO-50	0.75% - 0.25%	Included
GFAM	UMA ARO-100	0.65% - 0.25%	Included
GFAM	UMA ARO-250	0.85% - 0.25%	Included
GFAM	UMA ARO-500	0.85%-0.25%	Included
Rochdale	Ind. Managed Accounts	0.45% -0.25%	0.15% - 0.05%
Stadion	Exchange Traded Fund	0.65% - 0.40%	0.25% - 0.05%

<b>Tactical Constrained</b>			
Avatar Associates	Exchange Traded Fund	0.45% - 0.25%	0.25% - 0.05%
GFAM	UMA GMS	0.75% - 0.0%	Included
GFAM	UMA PMP	0.85% - 0.0%	Included
Goldman Sachs AM	Mutual Funds	0.45% - 0.20%	\$150
Goldman Sachs AM	Distribution Strategies	0.45% - 0.20%	\$150
JP Morgan	Mutual Funds	0.45% - 0.20%	\$150
Litman/Gregory	AssetMark Funds	0.0%	\$150
Litman/Gregory	Consolidated Mngd Accounts	0.80% - 0.65%	0.15% - 0.05%
State Street	Exchange Traded Fund	0.45% - 0.25%	0.25% - 0.05%
<b>Absolute Return</b>			
Avatar Associates	Exchange Traded Fund	0.45% - 0.25%	0.25% - 0.05%
Eaton Vance	Mutual Fund	0.45% - 0.20%	\$150
GFAM	Principal Return Exposure Str.	0.45% - 0.20%	\$50
GFAM	Preservation Strategy	0.75% - 0.30%	Included
JP Morgan	Mutual Fund	0.45% - 0.20%	\$150
<b>Manager Select</b>		0.90% - 0.75%	0.27% - 0.05%
<b>Individual Managed Accounts</b>			
Best of Class Investment Management Firms		0.45% - 0.25%	0.27% - 0.05%
GFAM Fixed Income		0.45% - 0.20%	Included
<b>Administrative Accounts – “Non-Managed” Assets</b>			
General Securities		0.25% - 0.10%	\$50
Cash Alternative		0.25% - 0.10%	\$50 - \$150
Custodial Sweep		0.25% - 0.10%	\$50 - \$150

Additional Fees:

The Maximum Advisory Fees listed above exclude the following fees which may apply:

- Investment Manager Fee - If a third-party investment manager is selected within the platform, clients will also pay a non-negotiable Investment Manager fee directly to the investment manager. For UMA accounts, the Investment Manager fee is 0.60%.
- Initial Consulting Fee – Cash deposits or in-kind investment transfers of \$2000 or more may be assessed an Initial Consulting Fee of up to 1.00%, payable to SMHCA.
- Service Fee – If a custodian other than Genworth is selected, service fees may apply. These fees vary by Custodian.

## **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.

## **Types of Clients**

SMHCA provides 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.

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

Investing in securities involves risk of loss that clients should be prepared to bear.

### **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.

## **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 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.

## **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 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 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.

## **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.

## **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.

## **Brokerage Practices**

### **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 and SMA 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.

## **Custodial Arrangements**

CMFS and some SMA Program accounts are currently held at First Clearing, LLC. First Clearing, LLC provides an automated sweep of uninvested cash to a variety of money market funds, including FDIC insured funds. First Clearing 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 service SMHCA is providing. Wrap fee 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 on 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.

## **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. 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**

### **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.

## **Custody**

Clients should receive at least quarterly statements from the broker/dealer, bank or other qualified custodian that holds and maintains client's 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.

## **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 amounts, 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.

## **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.

## **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.
- 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