



SUMMIT EQUITIES, INC.

**Wrap Fee Program Brochure**  
**July 18, 2018**

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This wrap fee program brochure provides information about the qualifications and business practices of Summit Equities, Inc. If you have any questions about the contents of this brochure, please contact us at (973) 285-3670. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about Summit Equities, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Summit is an SEC registered investment adviser. Registration does not imply a certain level of skill or training.

## **Item 2. Material Changes**

This Wrap Fee Program Brochure has been updated since the last version dated June 26, 2018, to reflect the following material changes to the following items:

- **Item 4:** Disclosure has been added regarding an additional program fee that will be charged to any persons who become new clients in any of the wrap fee programs discussed in this Wrap Fee Program Brochure after the date of this Wrap Fee Program Brochure.
- **Item 11:** Certain disclosures have been revised to reflect changes to SE's IAR compensation practices after the program fee component of the wrap fee becomes effective.

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## Item 4. Services, Fees and Compensation

### *About Summit Equities, Inc.*

Summit Equities, Inc. ("SE") is presently registered with the SEC as both an investment adviser and broker-dealer. It is also a member of the Financial Industry Regulatory Authority ("FINRA") and of the Securities Investor Protection Corporation ("SIPC"). SE is in the process of transitioning its brokerage business, after which it will de-register as a broker-dealer and withdraw its memberships in FINRA and SIPC. As part of this transition, SE will be ending its current introducing firm relationship with National Financial Services LLC ("NFS") but is assisting clients to move (or convert) their accounts to an introducing firm relationship with Fidelity Brokerage Services LLC ("FBS"), which will provide brokerage services in connection with the accounts in the programs discussed in this Wrap Fee Program Brochure (each a "Program" and together the "Programs"), while NFS, an affiliate of FBS, will continue to provide account custodial services in connection with such accounts. As a result of this conversion, most of the investment advisory programs for which SE has served as the broker of record will become Programs. At no point will SE act as a broker-dealer in connection with any of the Programs. Clients should be aware that this Wrap Fee Program Brochure will not become effective or applicable to clients already invested in the Programs discussed herein until the affected accounts convert to FBS. The date of this conversion will be separately communicated to any existing clients in the Programs. Until the accounts transfer, which is expected to be within the third quarter of 2018 and shortly after each client submits the paperwork to convert his/her accounts to FBS, the account will be subject to the same disclosures contained in the most recent SE Form ADV Part 2A Firm Brochure provided to client.

Further, in connection with the foregoing, the Summit family of companies will undergo a corporate reorganization that will result in the assignment of all SE investment management agreements to a new Summit investment adviser, Summit Financial, LLC. Additional information regarding that assignment is being provided to existing SE clients in connection with the execution of a new investment management agreement.

Each SE investment adviser representative ("IAR") is also registered with FINRA as a registered representative with SE, although they will no longer be RRs of SE<sup>1</sup> as of the date that SE de-registers as a broker-dealer and withdraws its memberships in FINRA and SIPC. The IARs who provide (i) certain investment advisory services, including asset management, through SE, (ii) financial planning services through Summit Financial Resources, Inc. ("SFR")<sup>2</sup> and (iii) insurance through Summit Risk Management, Inc. ("SRM")<sup>3</sup> are independent contractors of each of these companies. Some IARs have other material business interests as well, as disclosed in their Forms ADV Part 2B Brochure Supplement ("IAR Brochure Supplement.") In limited circumstances, IARs have provided financial planning services through SE as well. SFR and SRM are affiliates of SE and Item 9 below contains a

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<sup>1</sup> SE is assisting the IARs who wish to continue to remain registered representatives of a broker-dealer to register with a broker-dealer that is not affiliated with SE or its successors. If they continue to offer brokerage products to clients, it will not be through SE.

<sup>2</sup> In connection with the corporate reorganization, SFR will be assigning all of its open financial planning contracts to SE, which will provide all financial planning services going forward and SFR will withdraw as an investment adviser.

<sup>3</sup> In connection with the corporate reorganization, SRM's insurance business will be succeeded by a new entity, Summit Risk Management, LLC.

discussion of these companies. Some IARs operate under a "doing business as" name. For more information about an IAR, please refer to the particular IAR Brochure Supplement.

Each IAR who has clients in the Programs is compensated by SE for providing investment advisory and related services. The amount of this compensation varies depending on which Program the client selects and may be more than what the IAR would receive if (i) the client engaged SE for other investment advisory services provided by SE, such as asset management in one of the non-wrap programs, or (ii) paid separately for investment advice, brokerage and other services. Accordingly, IARs have a financial incentive to recommend one Program over another Program, or a Program over other investment advisory services provided by SE. For additional information regarding this conflict, please see Item 6, Portfolio Manager Selection and Evaluation, Related Persons & Supervised Persons.

Each Program account at SE is managed by one or more IARs who serve as the primary point of contact between SE and the client, who collect financial profile information from clients and recommend specific advisory programs, including the Programs, to clients. Some IARs choose to incorporate more of SE's resources in their provision of advisory services to their clients than others do, such as consultations with the internal SE specialists regarding particular client circumstances or Program selection. Several of the IARs own shares of SE and often refer to themselves as "principals" of SE or of SFR. The use of the term principal connotes an ownership interest and does not imply they are registered as principals for SE or have any management responsibilities. If you have any questions, please speak with your IAR.

This Wrap Fee Program Brochure describes the Programs offered by SE as relevant to existing clients in the Programs whose accounts have converted, and clients who open new accounts in the Programs on or after the date of this Wrap Fee Program Brochure. Other advisory services offered by SE are described in another brochure, SE's Form ADV 2A Firm Brochure, which contains the information required by Part 2A of Form ADV.

For clarity, the Wrap Fee Program Brochure is drafted in the present tense, as it relates to the practices that will be in effect for all wrap accounts from the date the first such account is opened or converts to FBS.

### ***Types of Advisory Services***

SE offers several different Programs to its advisory clients. For most of the assets in its Programs, SE provides continuous and regular supervisory or management services (as defined by the SEC) based on the client's individual goals, objectives, time horizon, risk tolerance, liquidity needs, investment assets and income ("financial circumstances") utilizing the investment strategy selected by the client. IARs obtain a financial profile for each client to aid in the construction of a portfolio that matches the client's specific situation. Many clients maintain "household" accounts, in which multiple accounts for an individual or members of a family are managed jointly to maximize efficiencies. (The term "client" includes such households, for purposes of this brochure.) For all of the different types of Programs, the IAR will assist clients in assessing their goals, risk tolerance, income and tax situation and selecting an investment strategy and asset allocation that are appropriate for the client's specific circumstances. However, SE and its IARs do not provide tax advice to clients.

SE, through its IARs, is available to clients on an ongoing basis to discuss client financial circumstances, the selected portfolio and the securities therein or to process instructions from clients concerning Program accounts.

SE or a sub-adviser will exercise discretion in connection with certain Programs, as described below. For accounts in which SE or the IAR serve as the portfolio manager and direct trades, via discretion or otherwise, SE and the IAR endeavor to use the lowest cost mutual fund share class available to the client. The Municipal Bond Program (as defined below) does not utilize mutual funds.

In connection with the non-discretionary Program, it is up to the client to decide whether to accept or reject SE's recommendations. SE's securities recommendations seek to be consistent with a client's financial circumstances and any reasonable guidelines or restrictions provided by a client.

Unless otherwise instructed by the client, all dividends and other distributions will be reinvested in client accounts.

Under the Investment Management Agreement ("IMA") clients sign when engaging SE to provide services with respect to the Programs, SE is authorized to follow the instructions of clients in every respect concerning their participation in any Program. However, SE may reject such instructions if, in SE's reasonable judgment, such instructions (i) are not consistent with the terms of the Program, (ii) if implemented, would violate any applicable law, rule or regulation; or (iii) SE believes Client's autonomy has been compromised due to undue influence or exploitation or Client is incapable of acting in Client's best interests.

The investment strategies used by SE vary from client to client, as warranted by the individual circumstances.

Clients are advised to notify SE promptly if there are changes in their financial situation, investment objectives or if they wish to impose any reasonable restrictions upon SE's investment management services. Clients can engage SE to manage all or a portion of their assets on a discretionary or non-discretionary basis, by designating one or more advisory programs in connection with their IMA with SE. Some parties that are not affiliated with SE, such as FBS and Alliance Bernstein, L.P. ("AB"), require clients to enter into additional written contracts directly with such party.

All investments have risk and there is no guarantee that utilizing the asset management services of SE or its IARs will produce favorable results.

## **1. Summit Managed Portfolios**

Summit Managed Portfolios ("Managed Portfolios") are custom designed portfolios constructed by SE's Investment Management Committee ("IMC"), which includes the Chief Investment Officer and members of the Investment Management Department. The IMC meets regularly to oversee the Managed Portfolios. The IMC also conducts quarterly meetings with the Investment Committee, an advisory group of IARs, to discuss changes to the Managed Portfolios as well as other investment topics.

SE, acting through the Chief Investment Officer, has discretionary authority over the accounts managed under the Managed Portfolios Program. The IMC determines the asset allocation, the securities to be bought or sold, the amount of securities to be bought or sold and the timing of the purchases and sales of the securities.

SE currently offers approximately 40 Managed Portfolios<sup>4</sup> through its wrap program, some of which are broad, internally diversified Managed Portfolios, while others target a specific industry or market, or a combination of target industry and/or market exposures. The Managed Portfolios primarily use mutual funds and exchange traded funds (ETFs) to achieve various mixes of domestic equities, international equities, fixed income, real asset alternatives and hedging strategies. One of the Managed Portfolios also utilizes exchange-listed Master Limited Partnerships (MLPs). The Managed Portfolios are generally designed to be tax efficient and are more strategic in nature than tactical. Although SE has full discretion over all assets managed under the Managed Portfolios Program, it is not uncommon for accounts in the Program to have few or no trades between annual rebalancings. Clients should consider this in deciding whether Managed Portfolios is an appropriate choice for them, in light of the fact that (i) brokerage is included within the cost of the Program and (ii) clients pay the same wrap fee regardless of the number of transactions. If there are few trades made in a client's account, then a wrap fee program such as Managed Portfolios would not be a more cost effective option for the client as compared to a non-wrap programs (although SE does not offer these services as a non-wrap option.) If you have any questions, please speak with your IAR or contact *research@sfr1.com*. All of the securities held within Managed Portfolios have daily liquidity.

Each IAR works with the client to develop an allocation strategy best suited to the client's financial circumstances. IARs often recommend multiple Managed Portfolios to achieve the client's goals. Each Managed Portfolio is allocated similarly, but not necessarily identically, for all clients whose accounts are managed in accordance with that Managed Portfolio and annual rebalancing is done, as necessary, to drive each Managed Portfolio account to desired weightings, as the portfolio may deviate from the target over time. A client will have an account for the securities underlying each Managed Portfolio, but many clients have multiple accounts, each of which is allocated in accordance with a different Managed Portfolio to achieve their recommended allocations. Occasionally, a client requests and SE permits non-Managed Portfolio securities positions to be maintained in a Managed Portfolio account. This includes, but is not limited to, tax loss harvesting strategies where certain depreciated investments can be sold in an effort to realize a tax loss to offset capital gains and be temporarily replaced by other investments that are not substantially identical (as defined by the IRS) but are otherwise highly correlated.

## **2. Strategic Asset Allocation ("SAA")**

The SAA program enables IARs to custom design portfolios for clients, taking into account the client's financial circumstances. SE does not have discretion over the assets and the IAR must get approval

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<sup>4</sup> In addition to the Managed Portfolios operated as wrap programs, SE manages approximately 5 Managed Portfolios that do not constitute wrap programs because they are limited to holding insurance dedicated funds. Those non-wrap model portfolios are addressed in Summit's Form ADV Part 2A Firm Brochure. Please note that the Model Portfolios which are designated as utilizing only "NTF funds" are included within the scope of this Wrap Fee Program Brochure because it is anticipated that those portfolios will start investing in iShare ETFs once the client accounts move to FBS, or shortly thereafter within the discretion of the Chief Investment Officer.

from the client before entering any trades. SAA accounts primarily include assets for which regular and continuous supervision or management services are provided but from time to time, they hold specific investments for which the IAR provides only consultative and administrative services, including periodic monitoring, reporting and/or servicing.<sup>5</sup>

Although most SAA accounts are primarily allocated among mutual funds and ETFs, some IARs recommend that their clients also hold individual positions in stocks, bonds, traded and non-traded REITs, hedge funds (including funds of funds), unit investment trusts ("UITs") or other securities. Mutual funds, UITs and ETFs often provide diversification but may be concentrated in a particular asset class or investment style. The risk in these investments is determined by the risk in underlying holdings (*e.g.*, a stock mutual fund's risk is determined by the risk of the stocks in the fund). Further, some of the selected securities may be less liquid than those utilized in the Managed Portfolios. The IARs are invited to consult with members of the IMC regarding particular securities but they are not required to, and some choose to rely solely on their own due diligence regarding the securities or TPMs recommended. Clients should speak to their IAR to understand how their IAR determines which securities to recommend.

Given the long-term nature of many SAA strategies, many SAA accounts have little or no activity during a given period. If there are few trades made in a client's SAA account, then a wrap fee program such as SAA will not be the most cost effective option for the client as compared to non-wrap programs. If you have any questions, please speak with your IAR or contact [research@sfr1.com](mailto:research@sfr1.com).

Most assets held in connection with the SAA program are custodied at NFS, but the assets can also be held at an issuer, hedge fund, etc. If alternative non-traded investments (such as non-traded REITs or hedge funds) are linked to an NFS account the assets may be identified on the NFS statements but the actual securities are often held with and valued by the sponsor of the security. The NFS statements do not segregate these positions separately from securities that are held within the account although they do note that non-traded REITs are "Based on an Independent Appraisal," and hedge funds are "Based on Program Management's Unconfirmed Estimate of Net Asset," or a similar notation is provided.

### **3. Municipal Bond Program**

SE also sponsors a Municipal Bond Program, under which it appoints AllianceBernstein, L.P. ("AB") as sub-advisor to provide discretionary asset management services to SE clients who participate in the Program. AB invests the client's account in municipal bonds that generate income exempt from federal taxes, although some may be subject to the federal alternative minimum tax or state taxes. Clients should consult their tax advisors for additional information as SE, its IARs and AB do not provide tax advice. In general, AB seeks to manage volatility and interest-rate risk by focusing on short- to intermediate-term bonds.

AB actively manages client assets on a continuous basis and has discretion to buy, sell and trade municipal bonds. The IAR provides continuous and regular supervisory services to assets in the AB program and may recommend periodic rebalancing. Clients utilizing AB are advised to review AB's

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<sup>5</sup> For certain assets, such as those invested in hedge funds and non-traded REITS, or those managed by third parties who have a direct relationship with the client, Summit and the IAR provide ongoing advice and monitoring rather than what the SEC refers to as "continuous and regular supervisory services."



investment advisory brochures. If you have questions about AB, please ask your IAR or contact [research@sfr1.com](mailto:research@sfr1.com).

#### **4. Flexible Managed Accounts ("FMA")**

The FMA program is similar to the SAA program except that the IAR has discretion to place trades without contacting the client first and direct investments, such as non-traded REITs and hedge funds, are not included in FMAs. The IAR reviews the client's financial circumstances and exercises discretion to determine the securities to be bought or sold in the client's account, the amount of securities to be bought or sold and the timing of the purchases and sales of the securities. The securities used in these accounts generally include mutual funds, ETFs, MLPs, UITs, equities, and fixed income.

Mutual funds, UITs and ETFs often provide diversification but may be concentrated in a particular asset class or investment style. The risk in these investments is determined by the risk in underlying holdings (*e.g.*, a stock mutual fund's risk is determined by the risk of the stocks in the fund). Some of the selected securities may be less liquid than those utilized in the Managed Portfolios. The IARs are invited to consult with members of the IMC regarding particular securities but they are not required to, and some choose to rely solely on their own due diligence to decide what securities to buy and sell. Clients should speak to their IAR to understand how their IAR determines which securities to buy and sell.

Given the long-term nature of many FMA strategies, an FMA account may have little or no activity during a given period. If there are few trades made in a client's FMA account, then a wrap fee program such as FMA will not be the most cost effective option for the client as compared to non-wrap programs. If you have any questions, please speak with your IAR or contact [research@sfr1.com](mailto:research@sfr1.com).

Assets held in connection with the FMA program may be custodied at NFS or elsewhere as selected by the client, and when custodied at NFS, FBS provides brokerage services. Only FMA accounts custodied at NFS are part of SE's wrap fee programs. Please see SE's Form ADV Part 2A Firm Brochure for information about FMAs that are not custodied at NFS, including the nature of the advisory services provided, fees and expenses, and discussion of relevant conflicts of interest.

#### ***Other Aspects of Asset Management***

In providing investment advice in connection with the Programs, SE and/or the IARs utilize various types of securities including, but not limited to, mutual funds, ETFs, MLPs, equities, UITs, fixed income, hedge funds, traded and non-traded REITs.

SE offers the same suite of services to all of its clients. However, each IAR determines, based on his/her own analysis, management style and preferences, in conjunction with each client's specific profile and financial circumstances, which services and products to recommend, and whether to recommend the Programs or SE's non-wrap advisory programs. Clients may impose reasonable restrictions on SE regarding investing in certain securities or types of securities in accordance with their values or beliefs (or based on their employer or regulatory restrictions). However, if the restrictions prevent SE from properly servicing the client's account, or if the restrictions would require SE to deviate from its standard platform of services, particularly with respect to the Managed Portfolios, SE reserves the right to end the relationship. If there is little or no trading activity in the account, a client

will pay more in wrap fees than if the account were not a wrap fee account or if the account were a brokerage account.

### ***Administrative, Execution and Clearance Services***

Clients participating in the Programs are required to enter into an agreement with FBS to open a brokerage account that will hold the assets of the client's portfolio. With the exception of some fixed income trades in the SAA and FMA Programs, and the fixed income trades in the Municipal Bond Program (further information about all such Programs in this regard is provided below), all orders for the purchase or sale of securities in client portfolios will be introduced by FBS to NFS and settled and cleared by NFS. By trades being directed in the foregoing manner, FBS will not be able to: (i) select broker-dealers on the basis of price or other attributes; (ii) negotiate commissions (or mark-ups or mark-downs on fixed income and other securities) or impact or improve the price or quality of the services provided by broker-dealers other than NFS; or (iii) aggregate or "batch" orders for purposes of execution with orders for the same securities for other accounts managed by SE other than for other accounts also custodied or cleared through NFS. SE periodically evaluates the execution services of FBS to determine the extent to which clients receive best execution and price improvement and to review that such services provided by FBS remain competitive and are in the best interest of the firm's clients. SE does not receive any investment research and/or services in connection with directing orders to FBS.

Some IARs route fixed income order flow to prime brokers in connection with the SAA and FMA Programs. Within the Municipal Bond Program, AB routinely routes orders to brokers other than FBS where it believes it will achieve best execution. For additional information about AB's brokerage practices, please see AB's Form ADV Part 2A Firm Brochure. These practices are subject to certain conflicts of interest which are discussed in further detail below.

SE typically aggregates clients' purchase and sale orders for securities held (or to be held) in the Managed Portfolios Program and then transmits "batched" orders in an effort to reduce market impact and to obtain best execution. When an order is so aggregated the actual prices applicable to the aggregated transaction will be averaged and the account and each other account participating in the aggregated transaction shall be treated as having purchased or sold its portion of the securities at such average price. Where the batched order is not filled in its entirety, clients will be deemed to have purchased or sold a proportionate share of the securities involved unless otherwise warranted by particular circumstances, such as residual position size. In some cases, aggregating orders adversely affects the size of the position obtainable, and in some cases, clients would receive better price execution if they did not participate in a batched order. Trades are not typically aggregated or batched in the SAA and FMA Programs. Generally, AB aggregates or batches client trades in the same securities in connection with the Municipal Bond Program. Please see AB's Form ADV Part 2A Firm Brochure for additional information regarding AB's practices in this regard.

SE had significant incentives to select FBS to provide brokerage services for all accounts in the Programs, and NFS to continue providing custodial services for those accounts. In connection with SE's selection of FBS and NFS, SE has entered into a Support Services Agreement and a Transaction-Based Fee Schedule with FBS. Under the terms of the Support Services Agreement, FBS (through its Fidelity Custody & Clearing Solutions division), has agreed to support up to \$850,000 of certain

transition expenses incurred by SE over the first 24 months from the start of SE's relationship with NFS. Under the terms of SE's new Transaction-Based Fee Schedule, Fidelity will reimburse SE and/or new IARs who join SE and convert their clients' assets to the NFS custodial platform up to \$250,000 for qualifying expenses, including closeout fees, incurred within the first two years of the IARs joining SE. Further pursuant to the Transaction-Based Fee Schedule, FBS has agreed to waive certain initial set-up and ongoing maintenance costs associated with the software SE uses to access FBS' platform. These transition expense reimbursements and cost waivers are designed to reimburse SE and new teams of IARs for various technology, operational, administrative and other expenses they incur in connection with the movement of SE client accounts to the NFS custodial platform, and are customary when investment advisers select a custodial platform for their IARs and clients and recruit IARs.

The payments and financial benefits received from FBS and NFS create a material conflict of interest for SE, because, in part, they induced SE to select FBS and NFS to serve as the broker and custodian for the Programs. Further, these benefits incentivize SE to continue using NFS for a period of time as the custodian for all accounts in the Programs (rather than a different custodian), even if continuing with NFS is not in the best interests of SE's clients. In addition, a conflict exists with respect to the closeout fee and transition expense reimbursements new teams of IARs receive, because they incentivize such IARs to direct their clients' accounts to FBS and NFS rather than another broker-dealer and/or custodian. Moreover, in this respect, SE will not reduce the wrap fee for any Program by the value of the cost waivers, transition expense reimbursements and closeout fee payments. SE manages this conflict by periodically reviewing the quality of the execution and custodial services received from FBS and NFS and comparing their prices to the prices charged for similar services by other broker-dealers and custodians and by disclosing the conflict to clients. Further, SE believes it has negotiated favorable rates with Fidelity which enables it to charge lower platform fees than it would otherwise be able to charge.

Pursuant to the Transaction-Based Fee Schedule, FBS also has agreed to waive ticket charges on trades in domestic stocks, ETFs and options, and transaction fee mutual funds that are directed to and executed through FBS that it would otherwise charge to SE on accounts advised by SE for the first 12 months of SE's relationship with NFS. (Clients do not pay ticket charges on transactions and the cost of their brokerage is included in the wrap fee for the Program they select.) The 12 month timeframe on ticket charge waivers may be shortened or extended in FBS' discretion. Despite this waiver of ticket charges, clients should be aware that SE will not reduce the wrap fee for any Program by the value of the ticket charge waivers. After the expiration of the period in which ticket charges are waived by FBS, SE will have an incentive to minimize clients' overall trade volume in all securities because it will be responsible for paying the ticket charges incurred in connection with all trades placed with and executed through FBS.

SE will have an incentive not to recommend certain types of securities because of the higher ticket charges associated with them. For example, SE will not be charged in connection with client orders in Fidelity funds or non-Fidelity funds that participate in Fidelity's No Transaction Fee ("NTF") program but will be charged \$14.00 per purchase of shares in no-load or load-waived, non-Fidelity mutual funds that do not participate in the NTF program, and will be charged an additional \$10.00 surcharge for purchases of shares in the non-NTF mutual funds that do not pay a servicing fee to Fidelity (including both asset based or position based servicing fees) for such fund or share class ("Non-Participating CUSIPs"). This pricing structure creates a conflict of interest and provides SE with an incentive to

recommend Fidelity funds and non-Fidelity NTF program funds over other mutual funds. In addition, SE will be charged \$4.95 per trade with respect to exchange traded funds ("ETFs") other than iShares ETFs and certain Fidelity ETFs; this creates a similar conflict of interest and provides SE with an incentive to recommend iShare ETFs and Fidelity ETFs over other ETFs. SE is also charged various fees in connection with trades in individual equities, options and fixed income securities (such as municipal bonds and corporate bonds), including a \$10.00 trade away fee in connection with individual equities and fixed income securities; this creates a conflict of interest and provides SE with an incentive to recommend investments that do not charge these fees over individual equities, options and fixed income securities, and also an incentive to direct trades in individual equities and fixed income securities to FBS rather than other brokers who may provide better execution services to clients.

The trade-away and other various fees charged in connection with fixed income securities create a conflict specific to the SAA, FMA and Municipal Bond Programs. In particular, some IARs managing SAA and FMA accounts direct their individual fixed income trades to prime brokers rather than FBS, which would cause SE to incur the trade-away fee for each such fixed income transaction. Alliance Bernstein also trades away from FBS in the Municipal Bond Program, which causes SE to incur the trade-away fee for each transaction executed in a client account in the Municipal Bond Program. Because of the additional expenses SE incurs in connection with the fixed income trades in the SAA, FMA and Municipal Bond Programs, SE has an incentive to recommend other Programs over the SAA, FMA and Municipal Bond Programs. However, SE believes this conflict is significantly mitigated by, among other things, the fact that the IARs who recommend the programs, including the Programs, do not absorb these charges either directly or indirectly and are thus not influenced by these additional costs.

SE is aware of the foregoing conflicts of interest created by the Transaction-Based Fee Schedule and has adopted practices to monitor (i) recommendations and advice provided by its supervised persons for suitability; (ii) the amount of trading in client accounts to assess consistency with client investment profiles, and (iii) the quality of execution received from FBS with respect to individual equity and fixed income trades to assess client trades directed to FBS receive best execution. Further, SE negotiated the rates in the Transaction-Based Fee Schedule so that the costs for trades are lowest on the investment products used most frequently by SE and its IARs, which mitigates the conflict. With limited exceptions, equities, options and fixed income securities (other than in the AB portion of accounts) represent a small percentage of assets in the Programs.

The costs of the execution services provided by FBS and the custody, clearance and administrative services provided by NFS are included in the total fee for each Program, as described below and in the Advisory Program Schedules incorporated into the client's IMA.

### ***Wrap Fees***

When a client decides to participate in any of the Programs described above, SE charges a wrap fee, which consists of up to three components: (i) an annual advisory fee, (ii) a monthly platform fee, and (iii) an annual program fee. The annual program fee only applies to persons who become new clients in the Programs after the date of this Wrap Fee Program Brochure. The wrap fee includes the costs of investment advisory, execution, clearance and administrative services provided by SE, FBS, NFS and any prime brokers under the Programs (exclusive of certain third party fees for optional services which are separate and distinct from the fees and expenses charged by SE and are further described below).

Certain components of the wrap fee are negotiable. For additional information regarding the negotiability of these fees, please contact your IAR or SE at *research@sfr1.com*.

### Advisory Fee

IARs set the annual advisory fee component of the wrap fee for the Programs, so long as the maximum advisory fee does not exceed the limits of the advisory fee schedule below. IARs consider various factors in determining what level of advisory fee to charge, which may include the nature and size of the overall client relationship with the IAR, the size of the Program account, and/or the type of advisory or insurance products or services likely to be provided through SE and its affiliates. Part of the advisory fee is paid to the IARs as compensation for the services they provide under the Programs.

Since SE began providing investment management services, it has had other advisory fee schedules in effect, which were generally higher than those described below. As new advisory fee schedules are put into effect, they are made applicable only to new clients, and fees to existing clients are not affected. Therefore, some existing clients pay different advisory fees than those shown below.

#### **ADVISORY PROGRAM**

#### **MAXIMUM ADVISORY FEE COMPONENT**

**SUMMIT MANAGED PORTFOLIOS:** .....1.25%

**STRATEGIC ASSET ALLOCATION:**.....1.50%

**FLEXIBLE MANAGED ACCOUNTS:**.....1.00%

**MUNICIPAL BOND PROGRAM:** .....1.00%

The advisory fees charged for assets in the Programs are included in the written IMA between SE and the client. As noted above, certain components of the wrap fee are negotiable and most accounts do not pay the maximum advisory fee.

In connection with the Municipal Bond Program, SE is charged an annual fee of 0.17% by AB, which SE deducts from the annual advisory fee charged in the account. As compensation for the IMC's role as the portfolio manager in connection with the Managed Portfolios Program, SE retains 15% of the advisory fee component. The IAR does not receive additional compensation for his/her role as the portfolio manager in connection with the SAA and FMA Programs.

### Summit Platform Fee and Program Fee

As noted above, in addition to the advisory fee described above, the wrap fees for the Programs also include a monthly platform fee. The monthly platform fee is \$10.00 per month for each Program, except if a client is invested in Managed Portfolios designated as NTF portfolios, the platform fee is \$4.00 per month. Note that historically those portfolios invested only in mutual funds did not generate any transaction fees. It is anticipated that the Managed Portfolios designated as NTF portfolios will begin to invest in iShares ETFs at the time the Managed Portfolios Program is becoming a wrap fee

program, or shortly thereafter within the discretion of the Chief Investment Officer. The platform fee is not negotiable.

Moreover, persons who become new clients in the Programs after the date of this Wrap Fee Program Brochure also pay an annual program fee, which is as follows for all of the Programs:

<b>Asset Level</b>	<b>Annual Program Fee</b>
First \$3,000,000	0.15%
\$3,000,001 - \$5,000,000	0.125%
\$5,000,000+	0.10%

Existing clients in the Programs as of the date of this Wrap Fee Brochure are not subject to the annual program fee, and thus only pay the advisory fee and platform fee components of the wrap fee.

The annual program fee is assessed at the household level, meaning that the relevant fee percentage from the table above is applied to the aggregate value of the assets subject to the annual program fee for an individual or members of a family. The annual program fee is negotiable.

The total fees charged under any Program may be higher than what another investment adviser would charge for a similar combination of services, or what would be charged by SE or another investment adviser if the investment advisory and brokerage services were provided separately. The relative cost of each Program is affected by such factors as the administrative costs associated with the Programs, the fees charged when investment adviser and brokerage services are purchased separately, the size of the client's account, and the level of trading activity in the client's account.

### ***Payment of Wrap Fees***

In signing the IMA, Clients authorize the custodian to deduct the advisory, platform and program fees on a monthly basis in the month the services are provided. The advisory fee and the program fee are calculated by multiplying the average daily account value of the prior month by the annual fee, divided by 365, multiplied by the number of actual days in the month. For example, the January fees are based on the average daily balance of a client's account in December.

Unless otherwise agreed to by the client, SE calculates the average daily account balance based on all days within the period, including weekends and market holidays, which means that Friday valuations account for 3/7<sup>th</sup> of the average. This applies to all of the Programs custodied at NFS. These fees will appear as management fees on the monthly statements issued by the custodian. Some accounts, which have been open for a long time, prepay fees. If you have questions about your particular fees, ask your IAR.

Some Clients with accounts designate a bill-to account from which the custodian is directed to deduct the wrap fees. These arrangements are approved by the owners of the managed account and the bill-to

account, in the event the account registration is not identical. When wrap fees are not paid from an account for which the services are provided, the performance of that account will not be net of fees.

### ***Other Types of Fees and Expenses***

Unless otherwise noted on the IMA, Clients are responsible for paying all applicable third party fees (including, but not limited to, wire fees, foreign transaction fees, margin interest, liquidation fees, ACAT fees, regulatory fees, execution costs charged by broker-dealers and/or custodians other than FBS and NFS for execution), which are separate and distinct from the fees and expenses charged by SE. A schedule of such charges for accounts custodied at NFS is provided to clients at account inception or at any time by the IAR.

Certain investments such as hedge funds and non-traded REITs impose other charges. Clients are encouraged to review all documentation provided by those managers and issuers for details regarding their practices.

Additionally, all pooled investment vehicles, including mutual funds, ETFs, MLPs, REITs, UITs and hedge funds have their own internal operating fees and expenses that clients must pay. These fees and expenses are disclosed in each security's offering documents and vary considerably. These fees and expenses often include operating expenses, management fees, redemption fees, 12b-1 fees, administrative fees, concessions and other fees and expenses and increase the expense ratio of the security. These fees are in addition to the fees charged by SE.

If clients transfer in particular share classes of mutual funds, and if such shares are liquidated after being transferred to SE, those shares will incur contingent deferred sales charges (CDSC) from the mutual fund company if they are within the CDSC holding period. Many direct investments are alternative investments, which often incur higher costs than many traditional securities such as equities, mutual funds and ETFs. Some securities, such as hedge funds and private equity funds, also charge incentive or performance fees. SE encourages all clients to closely review the offering documents for all such investments with their IARs and to consider the aggregate costs.

Clients should contact their IAR or [research@sfr1.com](mailto:research@sfr1.com) with any questions about particular products.

Some products, such as direct investments, paid concessions or marketing fees to SE and its IARs, as disclosed in the issuer's offering materials. If SE received an up-front charge in its capacity as a broker (whether a sales load, dealer concession or otherwise) for an investment purchased through one of SE's fee-based advisory programs, SE has waived the advisory fee on the position in the amount paid as an up-front charge.

SE endeavors to use the lowest cost share class available to the client. Many mutual fund companies have offered newer, lower-cost share classes in recent years that are available to fee-paying advisory clients. SE periodically reviews its holdings in order to convert higher cost shares to lower cost shares, if available, and endeavors to offer clients the lowest eligible share class. Even so, SE cannot ensure that all clients will hold the lowest cost shares at any given time. SE does not participate in any revenue sharing arrangements

Except as noted herein, SE does not credit the clients' advisory accounts for amounts received from other parties.

As noted, if there is little or no trading activity in an account, the platform fee will cost more than the commission charges the client would have incurred if the account were a brokerage account.

## **Item 5. Account Requirements and Types of Clients**

SE primarily provides investment advice and/or management supervisory services to the following types of clients:

- Individuals and personal trusts
- High Net Worth Individuals
- Corporations and/or Business Entities
- Pension & Profit Sharing Plans
- Charitable Organizations

### ***Minimum Account Size***

There is no minimum account size associated with the SAA and FMA Programs. The Managed Portfolios have minimum account sizes ranging from \$5,000 to \$100,000, which can be waived at SE's discretion. AB imposes a minimum account size of \$250,000 in connection with the Municipal Bond Program, but SE encourages a minimum account size of \$1,000,000 in such Program which may be negotiable depending on client's total assets under SE's management. Any minimum account size is outlined in the IMA entered into by the client. Exceptions to minimum account size requirements may be negotiated.

## **Item 6. Portfolio Manager Selection and Evaluation**

### ***Selection and Review of Portfolio Managers***

Portfolio manager selection and review processes with respect to each Program are as follows:

*Managed Portfolios.* As noted above, Managed Portfolios are custom designed portfolios constructed by SE's IMC, which is comprised of the Chief Investment Officer and members of the Investment Management Department. The IMC is the only portfolio manager for the Managed Portfolios, and as a result, SE and its IARs do not undertake a portfolio manager selection or recommendation process in connection with this Program. However, SE does undertake a consistent process to review and oversee the ongoing performance of the IMC to assess whether the Managed Portfolios are being managed in accordance with client expectations and investment objectives. In particular, on at least a quarterly basis, the IMC conducts meetings with the Investment Committee, a group of IARs who provide advisory services to a significant cross-section of SE's client base. During these quarterly meetings, the IMC informs the Investment Committee of any changes to the Model Portfolios, and the Investment Committee provides feedback to the IMC, which can include any notable concerns communicated by clients regarding the Managed Portfolios of which the Investment Committee members become aware. In addition, on a monthly basis the IMC will calculate the performance of each Managed Portfolio for



internal purposes and benchmark that performance against an appropriate index, and then presents that information to the Investment Committee during each quarterly meeting for its review. The Investment Committee assesses the performance as compared to the benchmarks and offer suggestions on the development of new strategies to better meet client needs. The performance data underlying these internal calculations are based on information provided by Morningstar, a third-party vendor and data provider. Performance calculations prepared by the IMC are not made available to clients and the IMC does not prepare performance presentations regarding the Managed Portfolios that can be presented to current or prospective clients. However, clients can request information regarding the performance of their accounts at any time from their IARs.

*SAA and FMA.* If a client participates in the SAA or FMA Programs, his/her IAR(s) will act as the client's portfolio manager. The client's IAR is the only portfolio manager for the SAA and FMA Programs, and as a result, SE does not undertake a portfolio manager selection or recommendation process in connection with these Programs. However, SE does have a process to supervise the portfolio management services IARs provide in connection with these Programs. On an annual basis, IARs acting as portfolio managers in connection with the SAA and FMA programs must complete an annual review that, among other things, requires IARs to (i) provide information regarding the nature of any due diligence they performed in connection with investments they recommended to or selected for clients, (ii) review all share classes held by their clients and note if there are lower cost shares available for each mutual fund, UIT, REIT or any other pooled investment vehicle in each client portfolio; (iii) explain whether the current portfolio composition and prior year's trading activity met the client's needs, his/her risk tolerance and investment objectives, including the IAR's rationale for the number of trades placed in each account, as well as a discussion of the value of such trades relative to each account and the portfolio as a whole and the performance of the portfolio; (iv) report the nature and content of any communication with the client regarding how the current portfolio composition and prior year activity addressed the client's needs (including liquidity), risk tolerance and investment objectives; and (v) assess and explain whether the IAR recommends changes to the portfolio to meet the needs of the client and if so, what they are. A member of SE's supervisory team reviews the information the IARs provide, and follow up with IARs as appropriate to assess that client needs in connection with their SAA and FMA accounts are being met. SE does not calculate the performance of the IARs who provide portfolio management services in connection with the SAA and FMA Programs. However, clients can request information regarding the performance of their accounts at any time from their IARs. The data underlying the performance information relating to traded investments and mutual funds is provided by Morningstar, a third-party vendor and data provider, and data relating to non-traded investments is provided by the sponsors of those investments. Neither SE nor IARs prepare actual performance presentations regarding the SAAs or FMAs that can be presented to prospective clients. However, upon request, and as part of analyzing the client's risk profile, a client and an IAR can review theoretical performance in the event of the realization of certain risks. These theoretical presentations are generated by non-proprietary software, and clients should carefully review the disclosures that are provided in connection with them.

*Municipal Bond Program.* If a client participates in the Municipal Bond Program, AB will act as the client's portfolio manager. AB is the only portfolio manager made available in connection with the Municipal Bond Program, and as a result, SE does not undertake a portfolio manager selection or recommendation process in connection with this Program. However, SE does have a process to review and evaluate the portfolio management services AB provides in connection with this Program. In

particular, on at least a quarterly basis, SE's IMC conducts due diligence of AB to reassess whether it is an appropriate portfolio manager for the clients participating in the Municipal Bond Program. For additional information regarding the nature of this due diligence process and the IMC's points of consideration, please see the sub-section below titled "**Methods of Analysis**." As part of each review and evaluation of AB, the IMC considers composite performance information provided by AB. With respect to such composite information, AB claims compliance with the Global Investment Performance Standards (GIPS®) and prepares and presents composite performance reports to the IMC in compliance with the GIPS® standards. Furthermore, AB has been independently verified for the periods from 1993 through 2016, and the verification reports are available to the IMC upon its request. The verification process assesses whether (1) AB has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) AB's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards but it does not ensure the accuracy of any specific composite presentation. The composite performance information prepared by AB is made available to current and prospective clients upon request. Clients can also request information regarding the performance of their accounts at any time from their IARs.

### ***Related Persons & Supervised Persons***

Managed Portfolios are custom designed portfolios constructed by SE's IMC, and IARs act as portfolio managers in connection with the SAA and FMA Programs. Certain conflicts arise in connection with these related persons acting as portfolio managers in these Programs. In particular, the maximum advisory fee paid by clients differs depending on the specific program or service they select and often varies from client to client. Moreover, in connection with accounts in which clients do not pay a program fee to SE (except AssetMark and Envestnet accounts), and, with certain limited exceptions, accounts in the SEI programs, SE retains a portion of the advisory fee before applying the IAR's grid to calculate the IAR's compensation. In connection with accounts that do pay a program fee to SE, the AssetMark accounts, Envestnet accounts, and, in certain limited cases, SEI accounts, SE retains no portion of the advisory fee before applying the IAR's grid to calculate the IAR's compensation and the IAR's compensation is based on the entire advisory fee. Clients should be aware that IARs, therefore, have an incentive to recommend the programs or services in which they charge a higher advisory fee, or the programs or services in which they keep more of the advisory fee. SE is aware of the conflicts of interest created by the variability in advisory fee compensation across programs and services and has adopted practices to supervise recommendations of programs and services.

IARs act as portfolio managers in connection with the SAA and FMA Programs and have to conduct their own due diligence of securities and/or allocations they recommend and select under these Programs, while they do not have to conduct securities-specific due diligence in connection with the other Programs. Because the SAA and FMA Programs involve this additional effort by IARs, IARs may be dis-incentivized from recommending these Programs to clients. Conversely, the maximum advisory fee is higher for SAA accounts, which incentivizes IARs to recommend this Program. SE is aware of the conflicts of interest created by variability of the role the IAR plays in connection with the different Programs and has adopted practices to supervise recommendations of Programs.

### ***Advisory Services Provided in Connection with Managed Portfolios, SAAs and FMAs***

SE's IMC and its IARs are supervised persons of SE and provide portfolio management services in connection with Managed Portfolios and SAA and FMA accounts, respectively. For information about the advisory services provided in connection with Managed Portfolios, SAA and FMA accounts, please see Item 4, above, regarding Services, Fees and Compensation.

### ***Tailored Investment Advice***

As described in Item 4 above regarding Services, Fees and Compensation, SE offers the same suite of services to all of its clients. However, each IAR determines, based on his/her own analysis, management style and preferences, in conjunction with each client's specific profile and financial circumstances, which services and products to recommend and whether to recommend the Programs or SE's non-wrap advisory programs. Clients may impose reasonable restrictions on SE regarding investing in certain securities or types of securities in accordance with their values or beliefs (or based on their employer or regulatory restrictions). However, if the restrictions prevent SE from properly servicing the client's account, or if the restrictions would require SE to deviate from its standard platform of services, particularly with respect to the Managed Portfolios, SE reserves the right to end the relationship.

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

SE does not assess performance-based fees or other fees based on a share of capital gains on or capital appreciation of assets of a client.

### ***Methods of Analysis***

As discussed in Item 4, SE and its IARs primarily recommend or select investments in ETFs, mutual funds and publicly-traded MLPs in the Managed Portfolio, SAA and FMA Programs. They also recommend AB as a sub-adviser and portfolio manager in connection with the Municipal Bond Program. The analysis for these securities and managers is conducted in the following way.

*Managed Portfolios and AB* - Members of the IMC conduct due diligence on securities, investment managers and strategies for Managed Portfolios and AB as a sub-adviser. While various sources of information may be used, the IMC's principal sources of information include (i) fund databases; (ii) financial publications; (iii) management interviews and contacts; (iv) industry trade association statistics; (v) government data; (vi) capital markets data; and (vii) third party research materials that analyze the overall investing landscape as well as specific market sectors and strategies. As appropriate, the IMC also reviews materials supplied by the investment managers including annual reports, factsheets, presentations, fund prospectus/offering memorandum, performance and related investment data, if available. When reviewing the investment strategy and process, performance, risk management and expenses of a prospective manager, the IMC evaluates some or all of the following items, among others:

- Are the assets under management large enough to efficiently manage a diversified portfolio but small enough to navigate supply constrained market sectors;
- Is there a stable investment team with the experience and depth required by the investment strategy;

- Is there consistency of the investment objective and the strategy followed;
- Is there a clearly defined investment style and management process;
- Is there a well-designed benchmark index (*e.g.*, universe of securities, weighting methodology);
- Does the organization have a disciplined management of risk exposures (*e.g.*, market, interest rate, credit, inflation, currency, liquidity);
- Is there attractive absolute and risk-adjusted performance, consistent with return and risk objectives. A track record from a different but similar investment vehicle may be used to evaluate performance;
- Are volatility and returns during market drawdowns consistent with risk exposures;
- Are there positive or neutral supply/demand trends and investor sentiment;
- Are the investment characteristics (*e.g.*, geography, industry sectors, valuation, capitalization range, credit quality) consistent with the investment mandate;
- Are the types of securities that may be held in the portfolio sufficiently liquid and well understood (*i.e.*, in line with the specific mandate);
- Are the costs, including management fees, operating expenses, sales fees and administrative expenses, marketing expenses, etc., reasonable (*i.e.*, moderate or low for the specific mandate);
- Is the product structure attractive and what are the potential tax implications.

*SAA/FMA* – Given the number of IARs providing advice at SE, the methods of analysis, investment strategies and investment selections will vary based upon the individual IAR providing the advice. As noted in Item 4, in the SAA and FMA Programs, IARs are not limited to using securities that have been reviewed by the IMC. IARs may conduct their own research and due diligence when making a securities recommendation. Several tools available to IARs include (i) Morningstar; (ii) Fi360; (iii) Bloomberg; (iv) financial publications; and (v) other sources to construct portfolios and research track records and fundamentals regarding the particular securities recommended.

### ***Investment Strategies***

Certain strategies and securities pose risks to clients, as detailed below.

*ETFs*: Shares in an ETF can be traded throughout the day on an exchange and are bought and sold at a market price that may differ from Net Asset Value (NAV). When conducting due diligence on ETFs, members of the IMC review additional data on liquidity and trading costs, often including:

- Tracking error versus the benchmark index (for passive ETFs);
- Premium/discount between the market price of the shares and NAV;
- Bid/ask spread;
- Trading volume.

*Active Strategies*: Active investment strategies (including open-end mutual funds and certain TPMs) seek to outperform a benchmark by selecting a portfolio of securities that differs from the benchmark portfolio. Active strategies involve manager risk and are typically more expensive than passive strategies that track benchmark indices. When conducting due diligence on active strategies, members of the IMC typically participate in a conference call, on-site meeting and/or meeting in SE's offices with a member of the investment strategy's portfolio management team. Factors evaluated by members of the IMC during the due diligence process include:

- Understanding the investment guidelines and discretion given to the investment team;
- Understanding the current risk/reward environment for taking on active risk exposures;
- Reviewing performance versus a universe of similar strategies;
- Considering investment techniques that may be used (*e.g.*, leverage, derivatives, shorting);
- Reviewing whether return premium compensates for active portfolio management and trading expenses.

The IMC looks at the experience and track record of the manager of each mutual fund and ETF as well as certain TPMs in an attempt to determine if that manager has demonstrated reasonable results and an ability to invest over a period of time and in different economic conditions. The IMC also monitors these mutual funds, ETFs and TPMs in an attempt to determine if they are continuing to follow their stated investment strategy. A risk of mutual fund, ETF or TPM analysis is that, as with all securities, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as the IMC does not control the underlying investments in a mutual fund, ETF or TPM, managers of different funds held by the client may purchase the same security, increasing the risk to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the mutual fund, ETF or TPM which could make the holding(s) less suitable for the client's portfolio.

*Master Limited Partnerships (MLPs):* MLPs are limited partnerships that are publicly traded on exchanges. Many MLPs provide exposure to a commodity-related industry such as oil and gas. Unlike ETFs and mutual funds, which provide exposure to a basket of issuers and are managed by a professional investment manager, MLPs are individual operating companies, much like equities. Not all MLPs are profitable or pay distributions to investors. The SE investment team screens the universe of MLPs to identify large, liquid securities that pay distributions.

### ***Additional Investment Strategies***

In the past, some IARs have supplemented SE's primary strategies by providing access to alternative investments – including non-traded REITs, hedge funds and funds of hedge funds. Although this was often done by IARs who acted in their capacity as RRs of SE as a broker-dealer, and not as an investment adviser, some IARs did include such assets within SAA Program accounts. It is anticipated that beginning in the third quarter of 2018, SE will no longer offer access to alternative investments as a broker-dealer but only through an advisory platform such as an SAA account.

*Non-Traded REITs:* In addition to managing the Managed Portfolios, the IMC has conducted due diligence on various types of securities which are not used in the Managed Portfolios but are often used by IARs in SAA accounts or in their brokerage business. Beginning in the third quarter of 2018, the IMC will no longer conduct due diligence on any securities or strategies except those designed to be used in connection with SE's investment advisory business, including but not limited to the Programs. When the IMC reviews non-traded REITs, it screens them to eliminate those securities that primarily invest in debt or in speculative areas of the real estate market. Non-traded REITs have limited liquidity with no available market price and the underlying properties are valued infrequently. In addition, management practices differ markedly from public REITs. Dividends may be paid out of offering proceeds and borrowing if operating cash flow is not sufficient. The property portfolio is

typically a "blind pool," that is, built up over time. When conducting due diligence on non-traded REITs, members of the IMC typically participate in a conference call, on-site meeting and/or meeting in SE's offices with a member of the REIT's management team. Factors typically evaluated by members of the IMC during the due diligence process of non-traded REITs include:

- Sponsor/advisor track record managing prior REITs through a successful liquidity event;
- Conflicts of interest that may result from the relationship between the REIT sponsor and the advisor;
- Other real estate investments controlled by the sponsor that may compete for new acquisitions or tenants;
- Pace of capital raising and expected timeframe until the offering is closed to new investments;
- Size and timing of the management team's investment;
- Investment opportunity (*e.g.*, supply/demand trends, valuation of private vs. public markets);
- Timing of the investment in the commercial real estate market cycle and current capitalization rate trends;
- Diversification and quality of property portfolio (*e.g.*, occupancy rate, average remaining lease terms, tenants credit quality);
- Investment limits (international properties, leverage) are reasonable;
- Leverage is in line with industry peers;
- Ability to sufficiently access capital markets for financing needs;
- Dividends are materially covered by Modified Funds From Operations (MFFO);
- Dividend payments are consistent with capitalization rates provided by the underlying investments and target leverage;
- Offering, operational and liquidation fees are not excessive and are competitive with evolving industry practices.

*Alternative Fund of Funds:* Hedge funds and commodity pools are complex investments that often entail greater risks than traditional investments. Hedge funds and commodity pools may utilize a variety of techniques including the use of leverage, derivatives and short sales and may exhibit a wider range of returns than traditional investments. In addition, hedge funds and commodity pools may invest in less liquid investments, have investment terms that limit liquidity and charge higher fees including performance-based fees.

SE typically recommends alternative funds of funds that research, select and build portfolios of underlying funds, thereby providing an added layer of due diligence compared to investing in funds directly. This approach provides exposure to a diverse group of managers and strategies that may help to mitigate manager risk. Fund of funds typically charge a layer of fees that are in addition to the fees charged by the underlying managers. Members of the IMC conduct due diligence on alternative fund of funds to identify specialist teams that have appropriate knowledge of the universe of managers and strategies, good relationships with alternative managers and a portfolio construction and manager selection process that is consistently applied. When conducting due diligence on alternative fund of funds, members of the IMC typically participate in a conference call, on-site meeting and/or meeting in SE's offices with a member of the portfolio management team. Factors typically evaluated by members of the IMC during the due diligence process include:

- Criteria for hiring and firing managers;

- Frequency of manager turnover;
- Trends in assets under management;
- Fee arrangement with the underlying funds;
- Portfolio construction and rebalancing;
- Views on identifying and managing commonalities between managers (*i.e.*, position or overlap exposure);
- Understanding of the current risk/reward environment for taking on active risk exposures;
- Performance versus a universe of similar strategies;
- Investment tools that may be used by the underlying funds (*e.g.*, leverage, derivatives, shorting);
- Return premium that compensates for the additional layer of fees;
- Operational controls; and
- Major service providers (*e.g.*, accounting, auditing, administration).

*Investment Platform Due Diligence—Alternative Investments:* SE and its IARs also recommend investment platforms that provide access to alternative strategies such as hedge funds. These platforms are supported by a deep bench of alternative investment specialists that conduct due diligence encompassing the investment and operational risks of the investment funds available on the platform. In some cases, these efforts are outsourced by the platforms to third parties. This independent due diligence bolsters the efforts of the IMC. These platforms provide access to alternative investments that are sometimes only directly available to large institutional investors and utilize technology that facilitates investment execution and reporting. Members of the IMC conduct due diligence on alternative investment platforms to validate their business model, ability to access attractive hedge funds to the platform, and the costs of the platforms compared to direct investment. This review covers platform documents, the due diligence reports provided by the platform, fund performance and investment terms such as fees and liquidity. When conducting due diligence on alternative investment platforms, members of the IMC typically participate in a conference call, on-site meeting and/or meeting in SE's offices with a member of the management team. The IMC may select a small group of investment funds with specific characteristics from the larger universe of funds available on the platform.

### ***General Risks***

Although the IMC and IARs consider many risks before recommending a security or investment manager to clients (or investing on their behalf), there are a myriad of circumstances that may cause investments to lose value. Their assessment of any investment manager or security's likely future performance is inherently a prediction and it is subject to uncertainty and risk that the outlook might prove wrong. An outcome contrary to what the IMC or IAR anticipated may arise from a number of factors, such as: an erroneous assessment of the value offered by the investment manager/security, a change in strategy by the selected manager, market changes, unanticipated changes to interest rates or the tax code, among others.

SE's IMC and IARs invest in and recommend securities they believe to be appropriate for the client based on an understanding of the client's investment objectives and risk tolerance. Summarized below are relevant risks broadly relating to the types of securities SE primarily invests in for client accounts; however, securities may be subject to additional risks specific to that security or issuer. Clients are

strongly encouraged to review the prospectus disclosures and offering documents relating to the securities held in their portfolios if they have any questions, as these documents discuss in more detail the risks relating to the particular investment. Additional information regarding the general characteristics and risks relating to the types of securities that SE primarily invests in for client accounts are explained in SE's "Product Risk Disclosure" document posted on SE's website at [www.summitequities.com](http://www.summitequities.com). Clients with additional questions regarding a particular security should contact their IAR.

### ***Specific Risks***

Clients participating in the Managed Portfolios should understand the underlying holdings within the Managed Portfolios (mutual funds, ETFs and MLPs) involve risk and the potential of loss. Money markets used in Managed Portfolios are generally considered low risk but are not guaranteed and may be subject to loss and or change in market value. Mutual funds and ETFs often provide diversification but may be concentrated in a particular asset category or class within a category. Investments in funds impose risk due to exposure to economic forces or factors for which the future is uncertain. Some of these are unique to individual funds, but many are common to many funds. A fund's risk depends on how closely its return is coupled with given indexes, the riskiness of each index and how closely the indexes tend to move together.

The level of overall investment market diversification will vary depending on the Managed Portfolio(s) used as well as the underlying exposures of the underlying funds or MLPs. The risk in a Managed Portfolio or collection of Managed Portfolios is a function of the underlying asset classes utilized and the particular weighting of the Managed Portfolios if more than one is used to meet the portfolio design. Further, all investment strategies involve risk and the investment performance and success of any strategy cannot be predicted or guaranteed.

Past performance should not be used to forecast future results.

Hedge funds are speculative in nature and may use leverage or other aggressive investment practices. As a result, client returns may be highly volatile, and clients may lose all or a portion of the investment in the fund. Clients who invest in commodities (through hedge funds that specialize in this asset class) should know that commodities are subject to world events, limited liquidity, shifting market preferences, trade signal disruption, supply/demand imbalances, currency movement and many other things that cannot be successfully predicted, but do have a significant impact on future results.

Past performance is not indicative of future results. Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.

This list of risks is not exhaustive. When clients invest in mutual funds, ETFs, UITs and newly issued municipal bonds, for example, they receive prospectuses and official statements which identify the risk factors associated with those securities and issuers. Clients are encouraged to review such disclosure documents. Similarly, clients are encouraged to review the offerings documents for private investments and the investment advisory brochures for all TPMs for additional risk disclosures. Please contact your IAR or [research@sfr1.com](mailto:research@sfr1.com) if you have questions about your investments.



### ***Voting Client Securities***

SE will not request or accept voting authority for clients. Clients will receive proxies directly from the issuer of the security or the custodian. Clients should direct all proxy questions to the issuer of the security. SE also will not be responsible for taking action or rendering any advice with respect to securities held in Program accounts which become subject to legal notices or proceedings, including bankruptcy proceedings.

### **Item 7. Client Information Provided to Portfolio Managers**

Client information, including their financial circumstances, is collected and continually maintained by IARs. Furthermore, on an annual basis, SE requires IARs complete an annual review for each client, pursuant to which the IARs report whether there have been any changes to each client's investment profile, and if there has been such a change, further requires the IARs to report the changes to SE's Operations Department. For the SAA and FMA Programs, the IARs serve as the portfolio managers and clients can thus communicate any changes to their investment profiles at any time. Client investment profile information is not communicated to the IMC, which serves as the portfolio manager in connection with Managed Portfolios, but as noted above, IARs collect and continually maintain information about clients and update it as necessary in connection with their participation in Managed Portfolios. Finally, in connection with the Municipal Bond Program, AB asks SE and its IARs to obtain and continually update information from clients that is material to the construction and maintenance of the client's portfolio, such as existing municipal bond holdings at the inception of an account, state of residence, and cash flow needs.

### **Item 8. Client Contact with Portfolio Managers**

SE does not place any restrictions on clients' ability to contact and consult with their IARs. Further, the members of the IMC are available to talk to clients. AB, which serves as sub-adviser in connection with the Municipal Bond Program, is generally not available to speak to SE's clients, but IARs can communicate information to AB upon client request.

### **Item 9. Additional Information**

#### ***Disciplinary Information***

On May 1, 2017 SE finalized the terms of a settlement with FINRA relating to two matters. Without admitting or denying the allegations, SE consented to an Acceptance, Waiver and Consent with FINRA in which FINRA asserted and found that (i) from 2001 – 2012 SE failed to reasonably supervise one of its registered representatives who sold securities through a different brokerage firm that was unaffiliated with SE, which FINRA deemed to be in violation of NASD Rules 3010, 3040 and 2110 and FINRA Rule 2010; and (ii) from 2011 – 2015, SE failed to reasonably supervise and train its registered representatives regarding multi-share class variable annuities, or have sufficient written policies regarding such products, which FINRA deemed to be a violation of NASD Rules 3010(a) and (b), and FINRA Rules 2330(d) and (e), 3110(a) and (b) and 2010. SE agreed to pay a fine of \$325,000 and to a censure.

SE notes that the representative who sold securities through the other brokerage firm is no longer associated with SE. Further, even though SE did not provide the guidance regarding multi-share class VAs, SE's RRs are professional financial planners who were qualified to, and did, make appropriate suitability determinations regarding the share classes they recommended to their VA clients. Finally, SE has significantly expanded and enhanced its management, compliance, supervisory and legal personnel as well as its overall compliance and supervisory structures and training programs since the conduct that gave rise to the violations.

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

SE is registered as a broker-dealer and is a member of the Financial Industry Regulatory Authority (FINRA) and is also registered with the Securities Exchange Commission (SEC) as an investment adviser. However, it is anticipated that during the third quarter of 2018, SE will de-register as a broker-dealer and withdraw its memberships in FINRA and SIPC. As noted above, most SE management persons and its IARs are also registered representatives of SE in its capacity as a broker-dealer and are registered with FINRA, although they will no longer be registered representatives of SE as of the date that SE de-registers as a broker-dealer and withdraws its memberships in FINRA and SIPC. SE is also associated with other affiliates that have overlapping employees and clients and which may receive fees, commissions or other remuneration from non-clients as a result of a sale or product or service by the affiliate to the client. Neither SE nor the IARs will act as a broker in connection with the Programs, however.

**Summit Financial Resources, Inc.** – SFR is a New Jersey corporation which is an SEC registered investment adviser and whose sole business is that of providing financial planning services for a fee to individuals, partnerships, corporations, trusts and estates. Such services may include planning and/or consulting in the following areas: investments, income tax, estate, insurance, cash flow, fringe benefit, college funding, pension, retirement, business continuity and consulting. This is the same type of financial planning provided by SE, as described in Item 5, above. Many of SFR clients are also clients of SE. All persons associated with SFR are also associated with SE. SFR is currently assigning all of its open financial plans to SE and will cease to be an investment adviser once that has been completed.

**Summit Risk Management, Inc.** – SRM is a New Jersey corporation and is licensed to sell various insurance products and may earn commissions or remunerations on such products. Many of the clients of SRM are also clients of SE. Most persons associated with SE are also associated with SRM. All SE IARs are insurance brokers through SRM.

### ***Relationships or Arrangements with Related Persons***

If clients purchase insurance products from IARs in their capacities as insurance agents, SRM and IARs receive fees, commissions and other remuneration from insurance companies as the result of a sale by SRM. Until SE withdraws its broker-dealer registration, IARs will be registered representatives of SE and are able to sell brokerage products in their capacity as brokers and receive brokerage commissions and other fees for those sales. Further, even after SE withdraws as a broker-dealer, the IARs will be registered with an unaffiliated broker-dealer and some IARs will offer brokerage products, for which such IARs will receive compensation, in their capacity as registered representatives of a broker.

### ***Selection of Other Investment Advisers***

SE may recommend AB or other non-wrap TPMs as providers of investment management services for clients. Although AB's fee is deducted from the advisory fee, fees for other non-wrap TPMs are typically added to the fee charged by SE. This relationship and the fees are in the IMA and in some programs, an additional agreement between the client and the TPM. This practice creates a conflict of interest in that the IAR has an incentive to direct clients to those managers who provide SE with a larger fee split. Some TPM programs provide higher payouts to the IARs than SE's other advisory programs, but the amount of compensation will depend on the fee agreement negotiated with the client.

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

SE believes it owes clients the highest level of trust and fair dealing. As part of its fiduciary duty, SE endeavors to put the interests of its clients ahead of the interests of the firm and its personnel. SE has adopted a Code of Ethics that emphasizes the high standards of conduct the firm seeks to observe. SE personnel are required to conduct themselves with integrity at all times and follow the principles and policies detailed in our Code of Ethics.

SE's Code of Ethics attempts to address specific conflicts of interest it has identified or that could likely arise. SE personnel are required to follow guidelines in areas such as prohibitions on insider trading, personal securities transactions, conflicts of interest, gifts, confidentiality and privacy, compliance procedures, certification of compliance, training, record keeping and adherence to applicable securities laws.

Clients may request a copy of SE's Code of Ethics by contacting (973) 285-3670 or by emailing [compliance@sfr1.com](mailto:compliance@sfr1.com).

### ***Personal Trading Practices***

SE associated persons are not permitted to acquire beneficial ownership of any securities in an initial public offering (IPO) or purchase any private placements without the prior written approval of SE's Chief Compliance Officer. SE does not require pre-clearance for personal securities transactions other than IPOs or private placements.

SE does not hold or trade securities for its own accounts, although from time to time, representatives of SE may trade in securities for their own accounts that they also buy or recommend to clients, and they also may trade in different securities that they do not feel are appropriate for certain clients (including related securities, such as warrants or options). The conflict presented in this practice could lead to an IAR purchasing or selling a security in advance of a client and/or receiving a better price. SE monitors such transactions to look for potential conflicts of interest and to reasonably confirm that representatives of SE transact client business before their own when the same securities are being bought or sold at or around the same time.

## ***Review of Accounts***

The IARs review all of the accounts in the Programs on a continuous and regular basis. The Managed Portfolios are also reviewed on a continuous basis at the direction of the IMC. Additional reviews are triggered by material market, economic, or political events, or by changes in client's financial situations, such as retirement, change in employment or marital status, physical move, inheritance or other life events.

Each client will receive written reports from the custodian that detail the client's positions and activity. Many IARs also provide their clients with periodic performance reports, which show performance across multiple accounts within a household. Clients are advised to always compare those reports to the ones provided by the qualified custodians, which are the official records of the accounts.

## ***Client Referrals and Other Compensation – Economic Benefits Provided by Third Parties for Advice Rendered to Clients***

SE and its IARs receive economic benefits from third parties in a number of ways. Many of those are addressed in Item 4, above.

IARs are compensated through SE by sharing a percentage of the advisory fee component charged to the clients' accounts (often referred to as a "grid" or "net" payout). The payout percentage varies based upon the advisory program or TPM selected. Moreover, IARs with higher total revenue generally receive higher "grid" payouts. Additionally, if IARs recommend insurance in connection with financial planning service to clients (which are separate from the Programs), SE affiliates and many IARs receive significant allowances from Mass Mutual or other insurance companies, as discussed in Item 5 of SE's Form ADV Part 2A Firm Brochure and in the IAR Brochure Supplement.

For clients who open Program accounts after the date of this Wrap Fee Program Brochure, and who pay the program fee component of the wrap fee, SE does not retain any portion of the advisory fee component of the wrap fee before applying the IAR's grid to calculate the IAR's compensation. However, in connection with accounts in which clients do not pay a program fee to SE (except AssetMark and Envestnet accounts), and, with certain limited exceptions, accounts in the SEI programs, SE retains a portion of the advisory fee before applying the IAR's grid to calculate the IAR's compensation. In connection with accounts that do pay a program fee to SE, the AssetMark accounts, Envestnet accounts, and, in certain limited cases, SEI accounts, SE retains no portion of the advisory fee before applying the IAR's grid to calculate the IAR's compensation and the IAR's compensation is based on the entire advisory fee. This variability in SE's practices with respect to retention of advisory fees creates an incentive to IARs to steer clients to programs or services that generate higher revenue to them, although SE believes the IARs focus on each client's specific needs in recommending an advisory program, combination of programs or service. Moreover, as noted above, SE has adopted practices to supervise recommendations of programs and services.

SE also has agreements whereby it receives solicitation fees for referring clients' assets to be managed by certain TPMs, but does not receive these fees in connection with the Municipal Bond Program. The IARs typically provide advisory services in connection with those assets as well. For additional

information and disclosures about solicitor arrangements, please see the written disclosure document you will receive in connection with any referral to a TPM as well as your investment management agreement with any TPM to whom you are referred.

### ***Compensation to Non-Advisory Personnel for Client Referrals***

SE compensates its own IARs as well as some third parties for client referrals. Terms of the compensation for third parties are disclosed to the client at the time of the solicitation and upon request.

### ***Financial Information***

Firms that require clients to prepay fees of \$1,200, six months or more in advance, must include a copy of an audited balance sheet in their IA brochures. A small number of SE's clients do pay more than this amount in advance. Below is an audited statement of financial condition of Summit Equities, Inc. as of December 31, 2017, excluding the notes to the financial statements. The statement of financial condition has been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). The audit and opinion was conducted by WithumSmith+Brown, PC in accordance with the standards of the Public Company Accounting Oversight Board and included examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statement. The audit also included assessment of the accounting principles used and significant estimates made by management, as well as evaluation of the overall financial statement presentation. The audit opinion was dated February 27, 2018.

**STATEMENT OF FINANCIAL CONDITION**  
**12/31/2017**

**ASSETS**

Cash and cash equivalents	\$	2,493,296
Receivable from clearing broker		224,326
Receivable for investment advisory fees, commissions, concessions and trails		2,591,795
Furniture, fixtures and equipment, net		704,568
Investment in securities (Cost \$26,700)		115,245
Clearing broker deposit		100,000
Prepaid expenses and other assets		617,349
		<hr/>
Total assets	\$	<u>6,846,579</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**Liabilities**

Payable to clearing broker	\$	88,285
Commissions payable		2,206,366
Deferred investment advisory fee revenue		163,333
Notes payable to shareholder		67,155
Accounts payable and accrued expenses		559,377
		<hr/>
Total liabilities		<u>3,084,516</u>

**Stockholders' equity**

Class A voting; authorized 1,250 shares; 60.720 issued and 39.250 shares outstanding		7,500
Class B non-voting; authorized 1,250 shares; 166.060 issued and 127.660 shares outstanding		15,178
Additional paid-in capital		1,137,172
Retained earnings		3,539,071
Treasury stock, 21.470 shares of Class A held at cost		(332,320)
Treasury stock, 38.400 shares of Class B held at cost		(604,538)
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Total stockholders' equity		<u>3,762,063</u>
		<hr/>
Total liabilities and stockholders' equity	\$	<u>6,846,579</u>