



# SUMMIT EQUITIES, INC.

## **Investment Advisory Brochure** **July 18, 2018**

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This 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 brochure has been updated since the last annual update dated March 30, 2018, to reflect the following material changes to the following items:

- **Item 4:** Disclosure has been added regarding Summit Equities Inc.'s ("SE" or "Summit") intent to: withdraw from the broker-dealer business; transition its introducing broker relationship with its clearing firm, National Financial Services LLC ("NFS") to an unaffiliated broker-dealer; and assign its client investment management agreements to successor investment adviser in connection with a corporate reorganization and change of control of Summit and its affiliates. Summit intends to take these actions within the third quarter of 2018. In addition, certain disclosures have been revised to reflect changes to SE's IAR compensation practices after the program fee noted below becomes effective. These disclosures also appear in Items 10 and 14.
- **Item 5:** Certain conflicts disclosures relating to SE's receipt of revenue sharing from NFS, as well as its investment adviser representatives' receipt of 12b-1 fees and other types of fees from mutual fund companies, have been removed because they will no longer be applicable as of the date of Summit's Fidelity conversion. The date of this conversion will be separately communicated to clients whose accounts were subject to these fees. In addition, disclosure has been added regarding an additional program fee that will be charged to any persons who become new clients in certain programs and services discussed in this Firm Brochure after the date of this Firm Brochure.
- **Item 9:** Disclosure has been added to reflect that on May 1, 2017 Summit finalized the terms of a settlement with the Financial Industry Regulatory Authority, Inc. ("FINRA") relating to two matters involving violations of certain FINRA rules applicable to its broker-dealer business. Without admitting or denying the allegations, Summit agreed to pay a fine of \$325,000 and to a censure to settle these two matters.
- **Item 15:** Certain disclosures relating to the instances in which SE is deemed to have custody have been updated. These changes flow from an amendment to SE's Investment Management Agreement.

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## Item 4. Advisory Business

### Description of the Advisory Firm

Summit Equities, Inc. ("SE" or "Summit") 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 SE's Wrap Fee Program Brochure, while NFS, an affiliate of FBS, will continue to provide account custodial services in connection with such accounts. In connection with this conversion, most of the investment advisory programs for which Summit has served as the broker of record will become wrap programs which are addressed in its Wrap Fee Program Brochure. Summit has removed the disclosures relating to conflicts that arose from its relationship with its clearing firm and in connection with serving as both broker and adviser for the same assets as they are not relevant to programs addressed in this brochure. Summit expects to withdraw as a broker-dealer in the third quarter of 2018. Moreover, it is anticipated that later this year, 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 that will be under the control of different parties. 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 (RR) 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 described in their Forms ADV Part 2B Brochure Supplement ("IAR Brochure Supplement"). In limited circumstances, IARs have provided financial planning services through SE as well. Within the third quarter of 2018, SFR will assign all of its open financial planning contracts to SE, which will provide all financial planning services going forward. SFR and SRM are affiliates of SE and Item 10 below contains a 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 for that IAR.

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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.

Each IAR is compensated by SE for providing investment advisory and related services. The amount of this compensation varies depending on which advisory service or program the client selects and may be more than what the IAR would receive if the client engaged SE for a different advisory service or program provided by SE. Accordingly, IARs have a financial incentive to recommend one advisory service or program over another to maximize their compensation.

Each advisory relationship 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 services or 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 advisory service 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.

Two shareholders, Steven Weinman and Salvatore Salvo have the right to vote 25 percent or more of the voting shares of the firm. However, as noted above, the Firm is currently undergoing a corporate reorganization ("Reorganization") which will include changing its corporate structure from a corporation owned by multiple natural person shareholders to a Delaware LLC (called Summit Financial Holdings, LLC). Many of the owners of Summit Financial Holdings, LLC are currently owners of Summit although there will be additional owners of Summit Financial Holdings, LLC who are not currently owners of Summit. As a result of the Reorganization, the current voting shareholders will no longer control Summit Financial Holdings, LLC and will therefore not have controlling voting power in Summit Financial, LLC. The firm has been in business since April 30, 1982.

This Form ADV Part 2A Firm Brochure describes the investment advisory services and programs offered by SE. Wrap fee programs offered by SE are described in greater detail in another brochure, SE's Wrap Fee Program Brochure, which contains the information required by Part 2A, Appendix 1 of Form ADV.

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

SE offers six primary types of asset management programs for its advisory clients as well as financial planning. From time to time, individual IARs offer custom consulting or other services. In such event, the details will be disclosed in the specific agreements with the client.

For most of the assets in its six primary asset management 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 asset management

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.

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 advisory assets.

SE or a third-party manager will exercise discretion in connection with certain advisory programs, as described below. For assets for 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.

In connection with non-discretionary services or programs, 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 advisory services, SE is authorized to follow the instructions of clients in every respect concerning their participation in any advisory service or program. However, SE may reject such instructions if, in SE's reasonable judgment, such instructions (i) are not consistent with the terms of the service or 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 services programs in connection with their IMA with SE. Clients are typically required to enter into additional written agreements with the custodian for the accounts, investment managers, platform managers, insurance companies or other parties that are not affiliated with SE.

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 assets managed under 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.

With the exception of the Tax-Deferred Strategies Portfolios (TDS), the Managed Portfolios are part of the Managed Portfolios wrap fee program. For additional information about the Managed Portfolios that are part of SE's Managed Portfolios wrap fee program, please see SE's Wrap Fee Program Brochure.

TDS include managed portfolios that target a specific asset class, market segment or investment strategy or offer various mixes of these components. Each portfolio has a strategic allocation designed to overweight market segments expected to outperform over the long term and to control exposures to investment risks. Portfolios with a range of investment objectives and potential levels of risk and return are available. These portfolios are only available on the Nationwide Monument Advisor tax-deferred variable annuity platform. The underlying components of TDS include the following:

- **Managed Volatility:** diversified by asset class, investment style and approach and have the potential for attractive risk-adjusted returns. Some of these strategies have low correlations with traditional assets because they exploit the return potential of investment techniques and tools such as short selling, derivatives and tactical trading that are not available to traditional managers.
- **Tactical Fixed Income:** strategies that operate in an unconstrained fashion with investment techniques and market segments that are not available to traditional managers. These active managers have the latitude to benefit from bond market conditions while controlling interest rate, credit, sector and currency exposures.
- **Fixed Income:** invests in high quality bonds across the core U.S. fixed income markets which may be complemented by allocations to tactical strategies, international bonds and inflation-protected securities (TIPS). The active fixed income managers have the latitude to benefit from bond market conditions while controlling interest rate, credit, sector and currency exposures.
- **Real Assets:** invests in inflation-sensitive, tangible assets such as real estate, energy, metals and agricultural products

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

The SAA program enables IARs to custom design portfolios for clients, taking into account the client's financial circumstances. The IAR does not have discretion over the assets and must get approval 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>4</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 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 you have any questions, please speak with your IAR or contact [research@sfr1.com](mailto:research@sfr1.com).

Assets held in connection with the SAA program may be custodied at NFS or elsewhere as selected by the client, and when custodied at NFS, FBS provides brokerage services and they are part of Summit's wrap fee programs. Additional information regarding SAAs that are custodied at NFS can be found in SE's Wrap Fee Program Brochure.

### **3. 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 this program 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, many FMA accounts have little or no activity during a given period. If you have any questions, please speak with your IAR or contact [research@sfr1.com](mailto:research@sfr1.com).

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<sup>4</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."

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 and they are part of Summit's wrap fee programs. Additional information regarding FMAs that are custodied at NFS can be found in SE's Wrap Fee Program Brochure.

#### **4. Third Party Managers ("TPM")**

In the TPM program, the IAR reviews the client's financial circumstances and recommends an unaffiliated third party investment manager. Some of the TPMs are sub-advisers under agreements with SE and others will have separate advisory agreements directly with the client. Some of the third party managers operate on the NFS platform (such as Envestnet and AllianceBernstein); some operate on separate platforms (such as SEI Managed Account Solutions ("SEI MAS")). For additional information about SE's Municipal Bond Program, a TPM program under which Alliance Bernstein serves as sub-adviser and pursues a municipal bond strategy, please see SE's Wrap Fee Program Brochure.

In some cases, SE acts as a solicitor on behalf of the TPM. TPMs actively manage the assets on a continuous basis and have discretion to buy, sell and trade stocks, bonds, mutual funds and/or other securities in accordance with the program selected by the client. Depending on the TPM, the IAR will provide either consultative or continuous and regular supervisory services to assets in TPM programs and may recommend periodic rebalancing among the TPM's offerings. Clients are advised to review the Investment Advisory Brochure for any recommended TPM. In some cases, the IAR can create custom allocations on a TPM's platform. If you have questions about a particular TPM or program, please ask your IAR or contact *research@sfr1.com*.

The primary TPMs currently recommended by SE are SEI, the Municipal Bond Program and AssetMark/Genworth. Other TPMs may be suggested by IARs based on their clients' particular circumstances.

The SEI MAS program is a wrap program sponsored by SEI that utilizes third party managers and/or model mutual funds, although within the same account, an IAR can also direct, on a discretionary or non-discretionary basis, some or all of the client's assets into non-SEI investments to customize the portfolio based on the client's needs and circumstances ("Wealth Manager-Directed"). The Wealth Manager-Directed assets are primarily allocated among mutual funds and ETFs; however, they may also hold other types of investments, if recommended by the IAR. When IARs recommend these other investments in connection with Wealth Manager-Directed, clients incur additional charges.

Some of the TPM programs constitute "wrap programs." The investment advisory brochure for the specific TPM will indicate if its program is a wrap program and contain important disclosures about the program. Clients are encouraged to read those brochures and follow up with the IAR if they have any questions.

#### **5. SEI Mutual Fund Portfolios**

The SEI Mutual Fund Portfolios program (which is separate and distinct from the SEI MAS program)

enables IARs to design portfolios for clients, taking into account the client's financial circumstances, and uses actively managed SEI mutual fund asset allocation portfolios to help meet client investment objectives. Wealth Manager-Directed, which is described above, is also available in connection with the SEI Mutual Fund Portfolios program. As noted above, when IARs recommend non-SEI investments in connection with Wealth Manager-Directed, clients incur additional charges.

The IAR and client can decide whether to subject the accounts to automatic quarterly rebalancing so the allocation selected by the client remains consistent over time. The IAR provides ongoing advice and monitoring and does not have discretion over the assets and must get approval from the client before entering any trades (except for automatic rebalancing or Wealth Manager-Directed with discretionary authority, if selected). Given the long-term nature of most of the strategies, an SEI Mutual Fund Portfolios account may have little or no activity during a given period. Assets in the program are custodied at SEI, which is unaffiliated with Summit. As permitted by SEI, other assets may be held in the accounts, as well.

## **6. Outside Investment Monitoring**

In some cases, clients ask their IARs to oversee assets managed by other advisers, assets at brokers, or alternative investments such as hedge funds. Often, these are assets held in retirement plans. In these cases, the IAR provides ongoing consultative services which take into account the client's financial circumstances.

Services include periodic investment monitoring, reporting and/or servicing to the client. In connection with this service, the IARs typically do not have the ability to direct the trades, which must occur through the broker of record.

## **7. Financial Planning**

Fee-based financial planning services have generally been provided by SE's affiliate, SFR, although SE has occasionally performed such services and will be doing all financial planning going forward. The services are based on fixed fees and the final fee structure is documented in the financial planning agreement. Financial planning is designed to meet the client's financial goals, needs and objectives. The scope of the financial plan varies depending on the client and typically involves some combination of a review of the client's current financial situation, including estate planning, insurance planning, education planning, retirement planning and business succession planning and portfolio analysis. SE does not typically advise on business value analysis, and/or business liquidations, or property and casualty insurance, but these components can be referred out to third parties. The financial planning team includes income tax and estate specialists, insurance specialists and/or members of the IMC. Although some members of the SE financial planning team are admitted attorneys and/or CPAs, they act in a non-representative capacity. Neither they, nor any Summit entity, provide tax, accounting or legal advice to clients. Clients should make all decisions regarding the tax and legal implications of their investments and plans with their independent tax or legal advisors.

Following delivery of the financial planning, the investment advisory relationship terminates for clients who have engaged SE as investment adviser for the limited purpose of producing a financial plan. If implemented with SE, the client may use SE's brokerage (until SE withdraws its broker-dealer

registration) and/or advisory services, or the insurance agency services of its affiliate, SRM. If additional advisory services are selected by the client they will be covered under separate investment management agreement(s).

If financial planning clients choose to implement the recommendations contained in the financial plan through SE, the IARs will typically recommend products and services offered through SE and its affiliates and they may act in their capacities as RRs (which will be through an unaffiliated broker-dealer after Summit withdraws) and/or insurance agents. Clients are free to implement none, some or all of the recommendations and may do so through SE and its affiliates or through other providers of such services. Charges may be lower or higher if the plans are implemented away from SE and its affiliates.

Clients or SE may terminate an advisory program at any time by providing notice of such election to the other party. Refunds for financial plans are addressed in Item 5, below.

In addition to these core investment advisory services and platforms (*i.e.*, Managed Portfolios, SAA, TPMs, FMA, SEI Mutual Fund Portfolios, Outside Investment Monitoring accounts and Financial Planning), clients and IARs may negotiate other types of services for a retainer, flat fee or otherwise. These arrangements will be documented separately with the client, the IAR and SE.

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

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

In its provision of investment advice and asset management, SE and/or the IARs utilize various types of investments including, but not limited to, mutual funds, ETFs, MLPs, equities, UITs, fixed income, hedge funds, traded and non-traded REITs and insurance products such as variable life insurance and variable annuities.

Summit offers the same suite of services to all of its clients. However, each IAR determines, based on his 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 Summit's wrap fee programs or Summit'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 Summit or the TPM from properly servicing the client account, or if the restrictions would require SE to deviate from its standard platform of services, 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 advisory fees than commission charges if the assets were in a non-managed program.

SE's IMC and its IARs participate in wrap fee programs by providing portfolio management services. The asset management services of the IMC do not differ depending on whether it is managing a wrap fee account as opposed to another account (*e.g.*, an account participating in the TDS Managed Portfolio). IARs provide portfolio management services in connection with SEI MAS program accounts and some non-wrap accounts (*i.e.*, SAAs and FMAs that are not custodied at NFS and SEI

Mutual Fund Portfolios programs). For their services in connection with any wrap fee programs, SE and the IARs receive a portion of the wrap fees paid by accounts participating in such programs.

As noted above, IARs act as portfolio managers in connection with the SAA and FMA programs that are not custodied at NFS. 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 may have to conduct their own due diligence of securities and 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. Summit 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 program recommendations.

### ***Assets Under Management***

As of December 31, 2017, Summit provided advisory services to clients with respect to \$3,218,000,000 of their assets, approximately \$1,440,000,000 of which was on a discretionary basis. This includes assets for which regular and continuous supervision and management are provided as well as assets for which other consultative services, including periodic monitoring, managing, supervising, reporting and/or servicing. It omits all assets over which SE served solely as a broker, including 529 plans, most variable annuities as well as the non-advisory accounts it maintains as an introducing broker, which assets will no longer be serviced by Summit once it withdraws as a broker-dealer.

## **Item 5. Fees and Compensation**

### ***Investment Supervisory Services Fees***

When a client engages SE to provide investment management services, SE charges an annual advisory fee, and in certain circumstances, an annual program fee. The annual program fee only applies to

persons who become new clients of SE after the date of this Firm Brochure, and who participate in Managed Portfolios (including TDS), the SAA program, the FMA program, Outside Investment Monitoring programs, or any of the programs described in SE's Wrap Fee Program Brochure. Clients in the SEI programs, the Envestnet program, or the AssetMark/Genworth program do not pay the program fee to SE, and only pay an advisory fee to SE. Both the advisory fee and the program fee are negotiable. For additional information regarding the negotiability of these fees, please contact your IAR or SE at [research@sfr1.com](mailto:research@sfr1.com).

### Advisory Fee

IARs set their own advisory (aka consulting or placement) fees and/or flat fees for their services, so long as the maximum advisory fees do not exceed those on the advisory fee schedule, below. IARs consider various factors in determining what advisory fee to charge, which may include the nature and size of the overall client relationship with the IAR, the type of advisory, brokerage or insurance products or services likely to be provided through the IAR. As discussed below, clients with assets with TPMs or in Outside Investment Monitoring programs typically pay fees directly to other parties as well as to SE.

Since SE began providing these 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 advisory fees to existing clients are not affected. Therefore, some existing clients pay different advisory fees than those shown below.

### **ADVISORY PROGRAM**

### **MAX. ADVISORY FEE CHARGED BY SE**

#### **SUMMIT MANAGED PORTFOLIOS:**

TDS	1.00%
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#### **STRATEGIC ASSET ALLOCATION:**

1.50%

#### **FLEXIBLE MANAGED ACCOUNTS:**

1.00%

#### **THIRD PARTY MANAGERS:**

SEI Platform Managers	1.50%
Envestnet Platform Managers	1.50%
AssetMark/Genworth	1.35%
Other	1.00%

#### **OUTSIDE INVESTMENT MONITORING ACCOUNTS:**

1.00%

#### **SEI MUTUAL FUND ACCOUNTS:**

1.50%

SE's advisory fees for all programs are included in the written Investment Management Agreements between SE and the client. As noted above, advisory fees are negotiable and most clients do not pay

the maximum advisory fee. Also, some IARs reduce charges for clients with higher assets.

For SEI MAS, Envestnet and some other TPMs additional fees are covered in agreements directly between the client and the TPM.

If an IAR and client agree to a consulting fee at the inception of the advisory relationship, this will be addressed in an agreement between SE and the client.

For information regarding the fees charged in connection with SE's wrap fee programs, please see SE's Wrap Fee Program Brochure.

#### Summit Program Fee

As noted above, persons who become new clients of SE after the date of this Firm Brochure, and who participate in Managed Portfolios (including TDS), the SAA program, the FMA program, Outside Investment Monitoring programs, or any of the programs described in SE's Wrap Fee Program Brochure also pay an annual program fee, which is as follows for all of such 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 such programs as of the date of this Firm Brochure are not subject to the annual program fee, and thus only pay the advisory fee to SE. Moreover, as noted above, clients in the SEI programs, the Envestnet program, or the AssetMark/Genworth program do not pay the program fee to SE, and only pay an advisory fee to SE.

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.

#### Additional Fees for TDS Managed Portfolios

Clients invested in the TDS Managed Portfolios are also charged a monthly platform fee of \$20/month. Nationwide Mutual Insurance Company also imposes a "Low Cost Fund Platform Fee" up to 0.35% annually (this is the maximum fee) on the contract value invested in certain underlying investments. Please see Nationwide Mutual Insurance Company's prospectus and Statement of Additional Information for the variable annuity used in connection with the TDS Managed Portfolios for more information. These documents can be provided by the client's IAR.

#### Additional Fees for FMA and SAA Assets not Custodied at NFS

For details regarding any additional fees, including, but not limited to, trading commissions and service fees, charged by the broker-dealer executing trades in these SAA and FMA programs, clients

should reference the broker-dealer's fee schedule, which clients can obtain from their IAR or the broker-dealer.

### Additional Envestnet Fees

In addition to the advisory fee noted above, for Envestnet, clients are charged a "Custody Fee" designed to cover the cost of brokerage in the client's account, as well as a "Sponsor Fee." Additional information can be found in the Envestnet Direct Program Fees schedule provided to clients.

### ***Payment of Advisory Fees and Program Fees***

SE's advisory fees and program fees for the TDS Managed Portfolios are deducted from a bill-to account and/or invoiced to the client. They are assessed quarterly in advance based on quarter-end values.

For SAAs and FMAs that are not custodied at NFS, SE typically calculates and deducts the advisory fees and program fees directly from the client's custodial account quarterly in advance based on the average daily value of the assets under management during the immediately preceding quarter.

For SEI programs, program and management fees are calculated daily and payable in arrears net of any income, withholding or other taxes. Historically, SE's fee has been calculated and paid quarterly based on the quarter-end balance of the account. In late 2018, SE intends to change its billing to monthly, in arrears, based on the month end balance of the account.

For Envestnet programs, clients should review their Statement of Investment Selection for information regarding billing terms.

For Outside Investment Monitoring Accounts, advisory fees and program fees can be charged however determined by the client. Some outside investment advisers deduct SE's advisory fees and program fees; other clients designate a bill-to account.

Some accounts, which have been open for a long time, prepay fees. If you have questions about your particular fees, ask your IAR.

For the primary TPMs used by SE, the client pays separate fees to those managers and to SE (although both fees may be deducted from the assets managed by the TPM and held at the qualified custodian). This fee will appear on the statement issued by the custodian as a management fee. In some cases for TPMs, and for SAAs and FMAs that are not custodied at NFS, the clients direct SE to deduct advisory fees and, if applicable, program fees, from a separate account at NFS. Clients are advised to review the Investment Advisory Brochures and applications/contracts/agreements with the TPMs and/or sponsors of the investments for complete information on how fees are charged by such parties because their processes for charging fees may change from time to time. Moreover, since IARs can negotiate their own fee arrangements, some clients pay flat rates for services rather than asset based charges, which are deducted differently. If you have questions about a particular account or custodian, please contact your IAR or us at [compliance@sfr1.com](mailto:compliance@sfr1.com).

### ***Fees for Financial Planning Services***

SE's financial planning fees are negotiable and are generally determined based on the nature and extent of the services being provided, the complexity of the client's circumstances, as well as the other aspects of the client's current and historical relationship with SE. All fees are agreed upon prior to entering into an Agreement with any client. Fees are payable by check in advance and may change depending on whether or not new complexities present themselves. Any changes made to a financial plan fee will be discussed with clients in advance, and a new agreement will be signed to reflect the changes. The fees for financial planning have ranged from \$2,000 to \$25,000 in recent years, depending upon the complexity of the client situation (generally the lower charges were for individual components of a plan, such as a cash flow analysis.) The fees charged to a client for preparation of a Plan and related services are paid to SE and a portion of the fees is paid to the IAR. Since SE began providing these services, it has had other fee ranges in effect, which were generally higher, as the case may be, than those described above. As new fee structures are put into effect, they are made applicable only to new clients, and fees to existing clients are generally not affected. Therefore, some clients pay different fees than those shown above. If an IAR discusses matters relating to a Plan with a client's tax or legal consultants per the client's request, the client may be charged a separate fee by those consultants. There is no minimum dollar value of assets or other conditions required of a client to receive these services. In the event the client is not satisfied, the client may request a fee refund in writing. The request must be within ten days of plan presentation and within six months of entering into the contract for planning.

### ***Other types of fees and expenses***

Clients are responsible for the payment of all third party fees, if applicable (including but not limited to custodian fees, brokerage fees, platform fees, wire fees, inactivity fees, foreign transaction fees, margin interest, liquidation fees, ACAT fees, regulatory fees), which are separate and distinct from the fees and expenses charged by SE and do not offset the fees charged. Please see Item 12 of this brochure regarding broker/custodian.

The custodians for the SAAs, FMAs, TPMs and sponsors for other investments (such as hedge funds, REITs, variable annuities, etc.) impose other charges. As noted throughout, clients are encouraged to review all documentation provided by those TPMs and sponsors for full and current details regarding their practices. For the two SEI programs, clients will incur transaction charges for investments directed by the IAR through Wealth Manager-Directed.

Each case will vary so please contact [compliance@sfr1.com](mailto:compliance@sfr1.com) or your IAR if you have any questions.

Additionally, all pooled investment vehicles, including mutual funds, ETFs REITs, hedge funds, MLPs, and UITs, as well as variable annuities and variable life insurance, 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, distributor fees, offering fees, administrative fees, concessions and other fees and expenses and increase the expense ratio of the investment. These fees are in addition to the fees charged by SE.

If clients transfer in B or C 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, such as hedge funds and private equity funds, also charge incentive or performance fees. Variable annuities and variable life insurance also charge mortality and expense charges, administrative charges, sub-account investment management fees and other applicable fees associated with sub-account options. 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* with any questions about particular products.

### ***Outside Compensation for the Sale of Securities to Clients***

SE endeavors to use the lowest cost mutual fund 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. Further, some TPMs are more careful about utilizing the lowest cost share class than others.

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

As part of a financial plan, an IAR may recommend changes to a client's insurance coverage. If clients request their IAR assist them in implementing the recommendations in a financial plan, the IARs, in their capacity as insurance agents, may suggest insurance products, which will generate commissions to them. Most of SE's IARs have the ability to place insurance as brokers through many insurance companies, including American International Group, Guardian, Lincoln National, MetLife, New York Life, Penn Mutual, Principal, Prudential and William Penn and/or as agents or brokers of Mass Mutual. The IARs often access these insurance products through SRM, which operates as a Mass Mutual General Agency, or through unaffiliated agencies, including ASH Brokerage and Stonegate Brokerage, among others. Even though the insurance products are typically not included in an advisory program, clients are advised that some of these insurance carriers pay allowances and benefits to some of the agents and brokers (which include trips, training support, educational conferences among other benefits), which vary considerably from year to year. Mass Mutual regularly supplements these benefits by paying SRM and the IARs (who are insurance agents) additional allowances and benefits (including subsidies on health insurance and retirement contributions). All of these allowances and benefits are customary in the industry and are in addition to the commissions generated on insurance sales and are based on the volume of business they conduct on an annual basis. These payments are significant to the revenue of the SE affiliates and to the IARs. Although this arrangement creates a conflict of interest and incentivizes IARs to recommend that clients use Mass Mutual or other insurance carriers which provide higher compensation, IARs who sell insurance recommend insurance carriers based on what they believe is appropriate for the client. SE's Director of Insurance also monitors insurance recommendations to mitigate these conflicts.

If there is little or no trading activity in an account, a client will pay more in advisory fees than

commission charges if the account were a brokerage account.

Commissions are not SE's primary source of compensation.

## **Item 6. Performance-Based Fees and Side-By-Side Management**

A small percentage of assets are held with fund of hedge fund managers through SAAs that share part of their performance fees with SE. In 2017 the aggregate revenue from these sources was extremely modest and amounted to less than 0.0006% of SE's total revenue. This fee will no longer be applicable after the Firm de-registers as a broker-dealer. If you have questions about a particular investment, please contact your IAR or us at [compliance@sfr1.com](mailto:compliance@sfr1.com). This is the only revenue sharing in which SE participates.

## **Item 7. 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***

The minimum account size for TDS Managed Portfolios is \$100,000, which can be waived at SE's discretion. There is no minimum account size associated with the SAA or FMA programs. Some TPMs have minimums of \$25,000 to \$1,000,000. Any minimum account size is outlined in the IMA entered into by the client. Exceptions to minimum account size requirements may be negotiated.

## **Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**

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

As discussed in Item 4, SE and its IARs primarily recommend or select investments in ETFs and mutual funds in the SAA, FMA and Managed Portfolios programs. They also recommend certain outside managers in the TPM program. The analysis for these securities and managers is conducted in the following way.

*Managed Portfolios and Certain TPMs* - Members of the IMC conduct due diligence on securities, investment managers and strategies for the Managed Portfolios and certain TPMs. 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 investment 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 and SEI Mutual Fund Portfolios* – 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, FMA and SEI Mutual Fund Portfolios 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 in all securities investments, 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.

*Investment Platform Due Diligence -TPMs:* SE and its IARs also recommend some investment platforms that provide integrated portfolio management, administration and reporting. These investment platforms typically offer asset allocation portfolios designed to meet different investment objectives and a broad array of separately managed accounts (SMAs) and investment funds. These platforms are supported by investment specialists in asset allocation, portfolio construction and manager due diligence as well as technology platforms that facilitates custody, trading, tax

management and reporting.

While members of the IMC conduct due diligence on the investment platforms to validate their business models, ability to identify and access attractive investment managers to the platform and the costs of the platform compared to direct investments, the IMC typically does not conduct diligence on the actual TPMs offered on the platform. When conducting due diligence on 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 investment platforms offer a wide spectrum of investments with different asset classes, strategies and risk exposures. Depending on the TPM's internal due diligence processes, the IMC often relies heavily on the due diligence performed by the investment platforms and often conducts additional screening on the TPM's available investments to identify strategies that are suitable for a particular client's objectives, risk tolerance and other preferences.

### ***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 an investment adviser, some IARs did include such assets within an SAA program. It is anticipated that at some point during the third quarter of 2018 (because SE anticipates withdrawing its broker-dealer registration at that time) 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 Summit's investment advisory business, including but not limited to the various investment advisory programs described in this brochure. 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 assets; 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 recommends for client assets 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.

If there is little or no trading activity in the account, a client will pay more in advisory fees than commission charges than if the account was a brokerage account.

### ***Specific Risks***

Clients participating in the Managed Portfolios program should understand the underlying holdings within the Managed Portfolio (mutual funds and ETFs) 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. 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.

### **Item 9. Disciplinary Information**

On May 1, 2017 Summit finalized the terms of a settlement with FINRA relating to two matters. Without admitting or denying the allegations, Summit consented to an Acceptance, Waiver and Consent with FINRA in which FINRA asserted and found that (i) from 2001 – 2012 Summit failed to reasonably supervise one of its registered representatives who sold securities through a different brokerage firm that was unaffiliated with Summit, which FINRA deemed to be in violation of NASD

Rules 3010, 3040 and 2110 and FINRA Rule 2010; and (ii) from 2011 – 2015 Summit 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. Summit agreed to pay a fine of \$325,000 and to a censure.

Summit notes that the representative who sold securities through the other brokerage firm is no longer associated with Summit. Further, even though Summit did not provide the guidance regarding multi-share class VAs, Summit'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, Summit 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.

#### **Item 10. 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 and Exchange Commission (SEC) as an investment adviser (although, as noted above, it anticipates withdrawing its registration as a broker-dealer and its membership in FINRA and SIPC during the third quarter of 2018). Also, 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 of SE's withdrawal of its registration as a broker-dealer and its membership 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 of a product or service by the affiliate to the client.

**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 and 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's clients are also clients of SE. All persons associated with SFR are also associated with SE. SFR is currently in the process of 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***

As detailed in Item 5 above, in their capacities as insurance brokers or insurance agents, SE's affiliates and IARs receive fees, commissions and other remuneration from non-clients including insurance

companies as the result of a sale of a product or service by SE's affiliate to the client.

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

As noted in Item 4, SE may recommend TPMs as providers of investment management services for clients. SE's fee is typically added to the fee charged by the TPM. This relationship and the fees are described 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.

### **Item 11. 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. Summit monitors such transactions to look for potential conflicts of interest and to reasonably ensure 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.

## **Item 12. Brokerage Practices**

### ***Ticket Charges***

For assets in the SEI programs, SEI directs most trades and the transaction charges are bundled with its fees. Trades in non-SEI investments that are directed by the IAR in connection with Wealth Manager-Directed incur transaction charges unless waived by SEI (through its no-transaction fee platform or otherwise). For accounts opened prior to April 16, 2018, such transaction charges in Wealth Manager-Directed are typically \$.03/share for equities with a \$15.00 minimum per trade and \$15.00 for mutual funds. Accounts opened at SEI after April 16, 2018 will pay a platform fee of 15 bps on the market value of non-SEI assets rather than transaction charges. The maximum annual platform fee in Wealth Manager-Directed after April 16, 2018 is \$1,000 per account. Additional charges are noted in the IMA and SEI brochure and in the MAS and SEI Mutual Fund Portfolios agreements.

For ticket charges incurred in connection with other TPM programs, clients should refer to the investment management agreements they enter into with the TPMs, as well as the brochures for the TPMs.

For ticket charges incurred in connection with SAA or FMA accounts that are not custodied at NFS, clients should refer to the fee schedule for the broker-dealer or custodian selected by the clients.

### ***Trade Aggregation***

Transactions for each client in the TDS Managed Portfolios and the SAA and FMA programs will be effected independently and are not "batched." For trade aggregation practices in connection with TPM programs, clients should refer to the investment management agreements they enter into with the TPMs, as well as the brochures for the TPMs.

### ***Best Execution***

SE maintains a fiduciary duty to seek the best execution pricing available for client transactions. While best execution is difficult to define and challenging to measure, there is some consensus that it does not solely mean the achievement of the best price on a given transaction. Rather, it is a collective consideration of factors concerning the trade in question. Such factors include the security being traded, the price of the trade, the speed of the execution, apparent conditions in the market and the specific needs of the client.

SE's primary objective when placing orders for the purchase and sale of securities for client accounts is to obtain the most favorable net results taking into account such factors as price, size of order, difficulty of execution and broker skill. Based on these criteria, the firm may not necessarily pay the lowest commission or commission equivalent, as specific transactions can involve specialized services on the part of the broker.

### **Soft Dollar Arrangements**

SE does not engage in soft dollar arrangements.

### **Item 13. Review of Accounts**

The Managed Portfolios are reviewed on a continuous basis by the IMC. SAAs, TPMs, FMAs, SEI MAS and SEI Mutual Fund Portfolios (and Wealth Manager-Directed assets within the SEI programs) are reviewed on a continuous and regular basis by the IAR providing supervisory services to the account. The Outside Investment Monitoring accounts may be reviewed on a regular or on a periodic basis – as determined by the client and IAR at inception of the relationship. 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 may 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.

### **Item 14. 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 5, above.

Generally, IARs are compensated through SE on a percentage of the advisory fee charged to the clients' accounts (often referred to as a "grid" or "net" payout). The payout percentage varies based upon the advisory program, service or TPM selected. Moreover, IARs with higher total revenue generally receive higher "grid" payouts. Most of the revenue paid to SE from clients are also split with the IARs. Additionally, if IARs recommend insurance in connection with financial planning service to clients (which are separate from the advisory programs and services described in this brochure), SE affiliates and many IARs receive significant allowances from Mass Mutual or other insurance companies, as discussed in Item 5, above, and in the IAR Brochure Supplement. 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. SE is aware of the conflicts of interest created by the variability in advisory fee compensation across programs and has adopted practices to supervise program recommendations.

Certain IARs receive other types of support from SEI and insurance companies. Payments from insurance companies are made to IARs in their capacity as securities or insurance brokers or as insurance agents, and are routed through SE or an affiliate. These payments frequently include reimbursement for marketing costs (such as paying for client meetings or mailing expenses). These tend to be modest and are often a few hundred dollars. These third party firms may also pay for travel and attendance at due diligence meetings, conferences, client relationship building events and other events that benefit the IAR financially and educate them about the sponsors' products, services, and support. These types of reimbursements are intended to result in the IARs' promotion of their investment products and create an incentive for the IARs to steer clients to invest with sponsors who deliver these economic benefits. SE and its affiliates are aware of the conflicts of interest created by these payments and have adopted practices to supervise program and insurance product recommendations.

SE also has agreements whereby it receives solicitation fees for referring clients' assets to be managed by certain TPMs. 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.

### **Item 15. Custody**

The SEC defines custody as holding client funds or securities, directly or indirectly, or having the authority to obtain possession of them. Summit is deemed to have custody over client assets because under the terms of the IMA the custodian is granted authorization to accept all instructions from SE relating to such assets. For this reason, SE is obligated to adhere to additional safeguards which include reasonably ensuring client assets are maintained with a "qualified custodian" (a legal term by the SEC), notifying the clients of the name and address of the qualified custodian (if Summit opens the account), having a reasonable belief the qualified custodian sends statements no less than quarterly and engaging an independent public accountant to examine those assets on a surprise basis every year. The accountant performing the "surprise" examination will contact some of SE's advisory clients to confirm their holdings with those listed on the records of the adviser.

SE urges clients to compare the account statements they receive from their account custodian with any performance report or statements SE or its service providers may create for them.

#### **Item 16. Investment Discretion**

SE, acting through the CIO, has discretionary authority over the accounts invested in the Managed Portfolios program. The CIO determines 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. In FMAs, the IAR exercises discretion and determines 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.

For discretionary accounts, SE endeavors to use the lowest cost share class available to the client.

The exercise of discretion is noted in the investment management agreements signed by the clients.

#### **Item 17. 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.

#### **Item 18. 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)
		<hr/>
Total stockholders' equity		<u>3,762,063</u>
		<hr/>
Total liabilities and stockholders' equity	\$	<u>6,846,579</u>