

StateTrust Capital, LLC  
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## APPENDIX 1 WRAP PROGRAMS



STATETRUST

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*Wealth Management*

You should read and consider with due care all the information contained in this Brochure before engaging StateTrust Capital, LLC as your Investment Advisor or for any of the services described. This information has not been approved or verified by any governmental authority. This should be read in conjunction with the Portfolio Management Agreement, ADV Part 2A and ADV Part 2B incorporated herein by reference.

Schedule H of Form ADV

This Wrap Program Brochure should be read in conjunction and as a complement to Form ADV Part 2a. This brochure contains certain information that may already be contained in the Form ADV Part 2a but relates in particular to certain managed programs where the fee charged to client is inclusive and there are no additional transaction-based fees or transaction-based charges including but not limited to commissions and other per transaction fees.

StateTrust Capital, LLC ("StateTrust Capital" or "STC") is an investment advisor registered with the Securities and Exchange Commission (SEC). StateTrust Capital is in the business of providing a variety of investment advisory services for an asset-based fee. Each Program described in this Brochure offers a sub-set of the following services, which are provided directly by StateTrust Capital, by an affiliate of StateTrust Capital or by third parties, which may be either independent or affiliated with StateTrust Capital:

- (i) Investment Supervisory Services
- (ii) Discretionary Portfolio Management
- (iii) Selection or Advise in the selection of other Investment Advisers or Portfolio Managers
- (iv) Custody and Execution
- (v) Performance Review, Evaluation and Reporting

In the case of services that require the retention by the Client of other investment management firms, separate brochures and/or agreements are provided.

The Client's securities account is normally held in his/her name at StateTrust Investments, Inc. ("STI"), an affiliated company of StateTrust Capital or at the brokerage firm of his/her choice. If Client wishes to use other broker/dealer to hold its assets, special arrangements may be made. The Client retains full ownership and control of all assets in his/her account and will receive all account transaction and valuation statements directly from the brokerage firm.

## **THE PROCESS**

During an initial interview, conducted at no charge to the client, the individual needs, goals, liabilities, risk tolerance, and time horizon of the client are attempted to be determined. An appropriate allocation of assets in a portfolio mix of equities, fixed income and other instruments is thereby recommended/established. StateTrust Capital services include (as required) helping the Client in defining his/her investment objectives, formulate an investment policy for him/her, evaluate and recommend professional money managers and as a final stage, design an asset allocation strategy for the Client. Within each of the categories in the strategy, the accounts or funds are further segregated by pure styles, size and minimums permitting, depending on specific client conditions (e.g., large capitalization growth, small/mid capitalization value, international large cap, etc.). In each of the chosen, segregated styles, internal and/or external account money managers are chosen. StateTrust, through an affiliated broker/dealer, StateTrust Investments, Inc ("STI") offers its clients access to external money managers. In the cases of large cap growth, small/mid caps, and fixed income, StateTrust itself may manage directly some of the portfolios if directed to do so by the client.

We summarize this process in several broad steps or stages:

## **Analyze Current Position**

Our first order of business is to assess your current range of investments.

- *Scrutinize plans and policies*
- *Examine contributions/disbursements*
- *Appraise any legal or legislative restrictions that may apply*
- *Evaluate personal and family preference*

## **Discuss Plan**

At StateTrust we work hard to create the most advantageous plan for you. One that reflects your life and your aspirations.

- Sound asset allocation
- Strategies that align with capital markets
- Alternative investment advice
- Contemporary portfolio models

## **Implementation**

As soon as a comprehensive Investment Plan is agreed, we turn our attention to the beginning steps of the process.

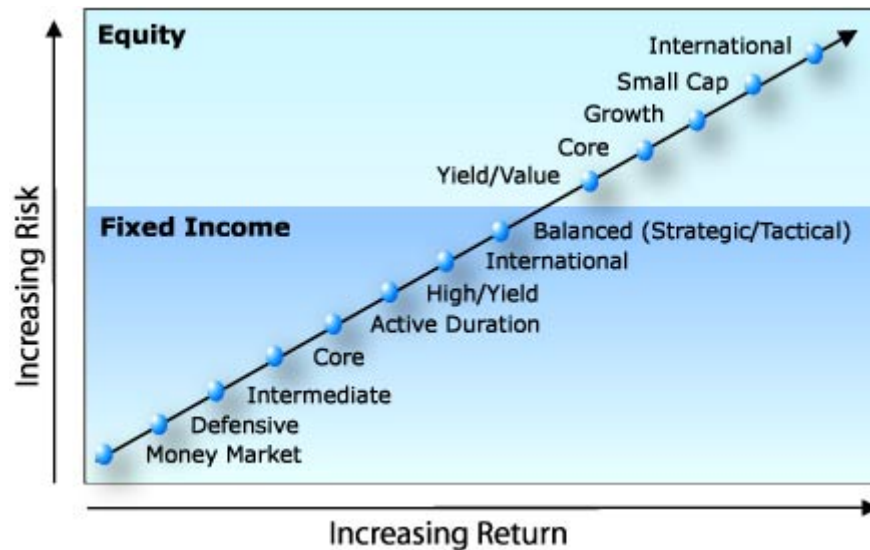
- Designate money managers
- Arrange fees/account-size minimums with money managers/mutual funds
- Organize custody and brokerage services

## **Monitoring the Strategy**

Helping you explore and define your investing objectives is just the beginning.

- Your portfolio is under constant supervision
- You receive monthly or quarterly statements on holdings and transactions
- Performance reports include comparisons against the market, investing goals, and other money managers are available
- We periodically review your risk profile and adjust your portfolio if you have experienced any significant changes in your financial situation

As we start the process of formulating a successful investment strategy for you, your current situation and future needs are looked over in great detail. From your financial situation, to any legal/regulatory restrictions, to your investment profile, every factor is taken into account so we can understand exactly what your circumstances are, along with what you wish to accomplish.



### Description for discretionary and non-discretionary accounts/programs

We divide our wrap Programs in the following general groups

- ❖ Equity Programs ( Managed directly by STC)
- ❖ Equity Programs managed by other investment managers (External Manager)

Prior to searching for a particular Program, we spend some time with you determining how much to utilize sub-asset class styles. These are simply subdivisions of the traditional broad asset classes that include equities, fixed income, and cash. Using the sub-asset class styles is an excellent way to limit volatility with regard to your returns since different styles fall into favor at different times. It is an advantage in that you have less worry about your portfolio fluctuating periodically.

### Equity Programs (considered wrap programs)

Fees: 1.8% - 2.4% of assets managed for the specific client, on a per annum basis, charged quarterly in advance. The adviser negotiates with each client individually to set the percentage within the stated range, depending upon specific conditions that include the size of the relationship, the type of the account, and other factors. Minimum amount invested for each program is generally US\$ 50,000. The registered broker/dealer where the account is being opened may require a certain minimum to open an account.

The following process describes the security composition of each portfolio:

- Public securities in the U.S. are screened and filtered, based on several variables that include: market capitalization, quarterly and yearly sales growth, yearly sales, free cash flows, earning per share (basic, excluding extraordinary items), net income, return on investment, working capital, earnings estimates revision, debt due in the next year, debt to equity ratio, and price to sales ratios, among others.
- The individual's securities chosen are checked through publicly available information.
- Securities may be bought on an ad-hoc if the manager wishes.

We manage two proprietary types of portfolios—large cap (capitalization) growth and small/mid cap (core). Market capitalization is calculated by multiplying a stock's market price by the number of shares. Custody and brokerage commissions are also included in the stated fee.

Large Cap	Mid Cap	Small Cap
\$10 billion	\$3-10 billion	\$500 Million -3 billion

Styles are defined as follows: **(i) Growth:** The price/earnings ratio is paramount here. This is simply a way to measure the value of a company. The current stock price is divided by the current earnings per share. Investments focus on the earnings element in the hope that the company's growth will surpass that of the market's, while the price/earnings ratio stays the same; **(ii) Value:** In terms of the price/earnings ratio, the price component is at the heart here. If the price/earnings ratio is seen as inexpensive, then it is thought that it will revert to market levels once the stock price rises; **(iii) Core** Managers who utilize the core style, do not favor the kinds of stocks present in growth or value portfolios. As a result, their portfolios tend to average the market quite closely and **(iv) Other:** Some other styles include international stocks (Europe and Asia) and emerging markets.

#### **Equity programs managed by External Managers**

In the case of external money managers, the advisory firm of StateTrust Capital uses the following general procedure in recommending managers to its clients:

- Money managers are screened based on style and within each style, a subset of money managers is pre-selected out of a set of available managers.
- The portfolio performance and composition of each pre-selected manager is checked.
- After the pre-selection, the adviser may contact individual money managers or do further analysis to have a better understanding of the manager's investment process.
- A subset of money managers is chosen.
- Depending on negotiations, a subset of money managers becomes those used/recommended by StateTrust Capital, LLC, to its clients.

Any fees charged by the external money managers are already included in the overall asset-based fee established with the client. Custody and brokerage commissions are also included in the stated fee. Minimum amount invested for each program is generally US\$ 100,000. The registered broker/dealer where the account is being opened may require a certain minimum to open an account.

#### **Other Programs/Accounts**

STC currently does not have non-discretionary accounts, where the firm supervises and helps the client in structuring the portfolio, including security, industry, and sector evaluation, as well as the evaluation of the individual securities. In such cases the adviser would rely more on individual securities research. On an exception basis the

fixed income and/or equity programs described above are customized to a particular client with a sub-program different to the ones described.

### **Biographical Information**

The following brief biographical information describes personnel of StateTrust Capital who are either principal officers or who have trading and/ or supervisory responsibility with regard to the managed/wrap programs.

Joseph Turnes, born 1961 (Principal Money Manager) oversees the management of all StateTrust Group companies, including StateTrust Life and Annuities, StateTrust Capital and StateTrust Investments. He supervises all investment portfolios, security selection, asset allocation, risk assessment and performance reviews. With nearly two decades of financial experience, Mr. Turnes has honed his management skills at global companies such as Reuters, Citibank, and Salomon Smith Barney. Mr. Turnes holds Series 7, Series 3, Series 6, and other licenses. He obtained a Bachelor of Science degree in electrical engineering from Catholic University in Washington, DC.

David Vurgait, born 1965 (Principal Advisor): Mr. Vurgait has degrees in electrical and electronic engineering from the Universidad Simon Bolivar in Caracas (college level) and McGill University in Montreal (graduate level). He also has an MBA from the Wharton School, University of Pennsylvania. He has more than 17 years professional experience. He was a management consultant for 4 years with Booz Allen & Hamilton, one of the top management consulting firms in the world. He was Vice-President of corporate finance at Andino Capital Markets, Inc., an investment bank in Caracas with offices in several countries in Latin America and is now Executive Manager of StateTrust Capital, LLC and President of StateTrust Investments, Inc.

Jeffrey Cimbale, born 1959 (Chief Operating & Compliance Officer): Mr. Cimbale was awarded a BS in Accounting in 1980. He is a Certified Public Accountant. He has more than 20 years of financial experience in the brokerage and investment advisory business and he is now the Chief Operating Officer for StateTrust. Mr. Cimbale holds series 7, Series 24 and series 27 licenses.

### **Trading**

Equity: In the case of discretionary wrap accounts, trades are executed on an agency basis but through bunching. The trading platform used for this, calculates the total number of securities to be purchased or sold based on the investment decision for all client accounts within the same sub-program. One order is placed with the purpose of (i) seek best execution, (ii) not to favor any particular advisory client, (iii) an allocation worksheet its maintained and if an order is not filled in its entirety, it its allocated pro-rata based on the worksheet.

### **Related Parties and Conflicts of Interest**

StateTrust Capital is an affiliate with common ownership of StateTrust Investments, Inc. (STI), a FINRA broker/dealer whose registration was effective April 2001. StateTrust Investments, Inc. is a fully disclosed broker/dealer with a clearing arrangement with COR Clearing LLC

StateTrust Capital is an affiliate with common ownership of StateTrust Life and Annuities, Ltd., a Life and Annuities Insurance Company registered in the British Virgin Islands and with StateTrust Bank and Trust Ltd. An international bank registered in St Lucia.

The advisors effect transactions for themselves and for related persons. Both at the advisor and broker dealer level, the securities recommended to a client may be the same as, similar to, or the opposite of those purchased or sold for the account of the firm, as investment goals and risk tolerance vary. At all times, the transactions of the firm's other clients will take precedence over those of the firm, except when bunching any order may afford a cost advantage, to be distributed proportionately. When appropriate, the firm's position is disclosed to clients when recommendations are made.

### **Referral Arrangements**

In addition, the firm has arrangements with certain individuals/entities, on a part-time or full-time basis, to promote its advisory services, without giving advice directly to clients. The firm compensates such Solicitors with approximately 20-45% of the annual fee charged by StateTrust Capital, LLC to those clients referred in this manner. In these cases, the fee charged by the Investment Adviser will not be higher than that charged to other customers of the Investment Adviser if no solicitor were used.

Rule 206(4)-3 specifies certain standards that must be met by an investment adviser and any person who solicits any client for, or refers any client to, an investment adviser prior to the payment of a cash fee directly or indirectly. Prior to or at the time of executing an advisory contract, the adviser must receive a signed and dated acknowledgment from the client evidencing receipt of the adviser's brochure.

### **Other General Matters**

StateTrust Capital is for the most part a discretionary investment adviser. Accordingly, StateTrust Capital generally determines the securities and quantities to be bought and sold for each client account. At least on a quarterly basis, and monthly if there is activity, clients receive itemized account statements reflecting present holdings and transactions for the account's stated period. Clients opting for services that include discretion over accounts as to what quantity of which securities are to be bought or sold without prior authorization from that client will first be asked to sign a limited power of attorney authorizing the investment advisor or the money manager to act in that capacity.

While StateTrust Capital, LLC generally uses the services of its affiliate broker-dealer; a client may, in writing, direct StateTrust Capital, LLC to use a particular broker/dealer to execute portfolio transactions for its account. The client will be notified that the advisor will have to decide on a case-by-case basis whether or not the full range of intended services can be delivered to the client.