

## Rexford Capital

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**This brochure provides information about the qualifications and business practices of Rexford Capital. If you have any questions about the contents of this brochure, please contact us at 713-838-8383, 800-838-5583 or [info@rexfordcapital.com](mailto:info@rexfordcapital.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Rexford Capital also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

Although Rexford Capital and some of our employees are registered investment advisors, this attribute does not imply a certain level of skill or training.

## 2) Material Changes

None

### Summary

When hiring an advisor, what can be more important than what your advisor does, is what an advisor does not do. It has been our view that investment scams, misrepresentations, and misfortunes have rarely centered on a lack of education, competence, or effort. **They focus on conflicts of interest.** We think the regulators have figured this out. With passage of the Dodd-Frank legislation, there are more disclosures required in narrative form so it is easily understood. We think this is a step in the right direction. The regulators want us to explain our conflicts in a way that is easy to understand. To this endeavor it is almost an education bill. This document will address the conflicts we have but furthermore educate the reader on the conflicts we avoid.

The common mistake most investors make is they seek people they “trust”, not people that are “trustworthy”. This document is critical in helping investors distinguish the two. The Dodd-Frank bill has language describing the length of sentences, the verb tense, and a requirement that the language is such that the client base will understand it. As one lawyer recently described, “It took three years of Law school to learn how to write in a way nobody can understand; now we will need to relearn English.”

This document contains what is most important in hiring an investment advisor. Our credentials, fees, and strategies are in here, but more importantly the conflicts of interest and the actions the advisory firm has taken to deal with them. We would encourage anyone to take some time and study this front to back with a highlighter. If you have any questions please feel free to call.

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#### 4) Advisory Business

**4A) Description of Advisory Firm:** Established in 2003, Rexford Capital is an independent fee-only investment advisor, registered with the State of Texas, actively managing individual investment portfolios containing domestic equity, international equity, and fixed income securities for high net worth individuals, retirement plans, and trusts. We believe that we can add value by acting as a fiduciary and avoiding the conflicts of interests associated with brokers, banks and insurance companies, promoting our independence and putting the interests of the client before our own. Our only revenue is the advisory fees our clients pay us.

The firm is a Sub Chapter S Corporation with two 50% owners, Robert Stanley Rexford and Kimberley Wells Rexford.

#### 4B) Description of Advisory Services

Approximately 95% of Rexford Capital revenue comes from providing investment supervisory services, also known as investment management. On more than an occasional basis, through Wealth Management, the firm furnishes advice to clients on matters not involving securities, typically financial planning matters, which represent about 5% of our revenue. We charge a percentage of assets under management.

Investment management and the activities that support it is where we spend most of our time. It is our experience that the most quantifiable difference between our clients and the prospects we encounter is our clients have a higher average rate of return. The difference, the best we can ascertain, is made up of two parts. The first and least significant is our performance against an index. There are two indices we publish numbers against, and this typically has been a small amount of difference. The second and much larger is from protecting the client from making mistakes in market timing. The prospects we interview usually have made some mistakes, such as inappropriate investments, or emotional changes at precisely the wrong time. To the extent we can prevent clients from making mistakes, we feel this is our most quantifiable benefit to our clients.

Wealth management and financial planning are the other specialties we possess. Unfortunately, we feel the profession has not matured into a stand-alone profession. Robert is a Certified Financial Planner<sup>TM</sup> and a NAPFA registered advisor (National Association of Personal Financial Planners) which is a higher standard for reasons we will describe later. Robert has extensive experience with financial planning, but he no longer does written financial plans. His guidance will be to our Wealth Advisory clients only.

#### Investment Management:

Once we complete the initial interview, we create an Investment Policy Statement for the client. This policy summarizes the information gathered in the questionnaire: risk and reward tolerance, any investment constraints, and both short and long-term investment objectives. The client will be provided a copy of the Investment Policy Statement upon request.

Investment Management includes:

- Discretionary Asset Management
- Allocation of assets across accounts
- Quarterly Portfolio Valuation Reports showing
  - \* Rate of Return (time weighted geometrically linked)
  - \* Sector and Industry Analysis
  - \* Capital Gains or Losses
  - \* Detailed Billing (account aggregation with family members)
- Cash Management Services
- Proxy Voting
- Evaluation of Corporate Actions
  - \* Restructurings
  - \* Purchase Offers
- Tendering Shares

Clients requiring Financial Planning may elect to use our Wealth Advisory Service, which combines our Investment Management with ongoing financial planning beyond the initial interview.

#### **Wealth Management:**

We created our Wealth Advisory Service to help families with financial decisions. Additional services include coordinating employee retirement accounts, educational accounts, life insurance, and trust accounts. We do not charge an additional management fee for the allocation of employee retirement accounts (such as a 401K) or the investment choices for an insurance policy (such as an annuity or life insurance product). Since we cannot control the investment decisions at these mutual funds or annuities, we exclude them from our published numbers.

#### **4C) Customization**

We have tried various forms of customization, with the results almost always worse than if we never allowed it. Generally, we would like to write we will never customize, but if the circumstances could be done without any significant harm to the client, we may consider it. The one customization trap we most frequently find ourselves in is that of tax planning. At times the tax code encourages us to change our behavior. Before we sell securities we check the clients cost basis and the date of purchase. If, as we find frequently, by holding off selling a short period of time we may push a short term gain into a long term gain, we may do so if the tax rates would benefit the client. If the client has a unique tax situation that would benefit if we recognized losses or gains, we have been known to reallocate if it benefits the client. The net overall experience has been a reduction in performance, so unless the tax savings is significant, we do not want to let the tax issue dominate decisions.

We have no interest in investment restrictions with social, political, corporate, racial, environmental, gender, or any other agenda. We are a fiduciary and our loyalty is to the client, not to any other cause. Let us invest in a way to allow you to reach your financial objectives.

#### 4D) Participation in wrap fees programs

Rexford Capital has never participated in wrap programs. Pending any way of doing it without a gross conflict of interest; we will not be.

#### 4E) Assets under management

Rexford Capital as of 12/31/2010 was managing 25.7 million in discretionary assets, with a total of 27.2 million in total assets. We exclude financial planning assets in these totals.

### 5) Fees and Compensation

#### 5A) Our Fees

Pricing for this program is charged monthly in arrears based on assets under management at an annual rate of 1.7%, based on the previous end-of-quarter. We have a minimum annual fee of \$5,000. Fees are not negotiable; our employees pay the same fees as our clients. In some cases we may waive the minimum.

<u>Assets Under Management</u>	<u>Annual Fee</u>
Under \$500,000	1.7%
\$500,001 to \$1,000,000	1.7%
\$1,000,001 to \$3,000,000	1.7%
Over \$3,000,000	1.7%

Minimum annual fee: \$5,000

Although closed to new clients, pricing for the Wealth Advisory Service, combining our Investment Management Service and continuous financial planning as follows:

<u>Assets Under Management</u>	<u>Annual Fee</u>
Under \$500,000	2.50%
\$500,001 to \$1,000,000	2.15%
\$1,000,001 to \$3,000,000	1.80%
Over \$3,000,000	1.75%

Minimum annual fee: \$6,000

Rexford Capital Inc. does not have a minimum account size, but applies an annual minimum account fee for each service provided by the firm. Accounts may be aggregated to allocate service minimums in lieu of individual account minimums. If an account does not have enough cash, or a minimum cash level is required, fees will be deducted from what we believe to be the most appropriate account.

#### 5B.) How and When Compensation is Payable

Fees are debited from the clients' accounts on the last day of the month earned, based on the previous quarter's balance. Each client receives a quarterly invoice showing the monthly fees. The Fidelity statement will also show the monthly fees.



Initial fees will be prorated to cover the period from the date the account is funded until the end of the quarter. The fee will be calculated by multiplying the last day of the month's portfolio value by the percentage of days in the quarter multiplied by one quarter (1/4) of the annual fee. Thereafter, fees are based on the trade date market value of the portfolio (including cash) as reported by the custodian for the previous quarter's last monthly statement. Fidelity's statements are as of settlement date. We believe that trade date accounting is more indicative of true account values. Trades executed but not settled are not reported as part of the portfolio value on the Fidelity monthly statement. We will adjust the value to include any trades done before the end of the quarter. These trades are reported as "pending trades" on Fidelity's statement.

### 5C.) Other Fees and Expenses

The Firm has also negotiated several trading arrangements with Fidelity Institutional as custodian. Fidelity's pricing is listed below:

	<b>Aggregate Family Account Size</b>	
	Over \$1,000,000	Under \$1,000,000
Stocks	\$7.95 up to 1000 shares 1 cent p/s over 1000 shares	\$12.95 up to 1000 shares OR \$7.95 w/ electronic confirmation 1 cent p/s over 1000 shares
Bonds Principal	No Additional Cost	No Additional Cost
Bonds Agency Corporate Government	\$2.50 per bond \$50	\$2.50 per bond \$50
Options	\$10.95 plus .75 per contract	\$10.95 plus .75 per contract

Wire fee \$30 Trade-Away Fee \$20

Retirement Account Closing Fee (accounts moved to other brokerage firms) IRA, Keogh, SEP \$75 per account. Most bonds trades are principal trades.

The depository institution that sponsors ADR's (American Depository Receipts) may charge a small fee for the dissemination of foreign dividends. These fees are the cost to have foreign investment cash flows deposited in US dollars.

### 5D.) Client Refunds or Client Termination

We do not deduct fees in advance. We deduct fees in arrears, so there will not be an issue with a client prepaying.

Required Texas disclosure:

Either party may terminate the agreement in writing. If the client should terminate the agreement within 5 days of execution of the Client Agreement, no penalties or fees will be assessed. In the case of termination of service after those initial 5 days, the client will receive a prorated refund of any prepaid fees.

#### **5E.) Other Compensation from sale of products**

- 1) Rexford Capital does NOT receive any compensation from the sale of any product, in the broadest sense of the word. We are members of NAPFA (National Association of Personal Financial Advisors), an organization that calls itself “Fee-Only”. Brokers will use the word “Fee-Based”. We see “Fee-Based” as a grave conflict of interest, and one of the reasons Mr. Rexford left Merrill Lynch.
- 2) We do NOT offer advice for clients that want to do it themselves. We do not offer advice for clients through other brokers. We accept referrals from any source, but we will not pay any compensation for any referral.
- 3) We do NOT receive any commissions or other compensation from the trades we make. If a Broker would like to discount trades, the savings will go directly to the client.
- 4) We do NOT offer any offset programs. An offset program is where a service (typically financial planning) is offered and paid for (maybe \$5,000). As an incentive to have a client try an additional product (typically Money Management), the firm may apply the financial planning fee towards money management.

We will broadly discuss your financial situation at no cost. If you need additional planning, such as creating a detailed budget or any other specific planning requirement, we will recommend outside advisors to meet your specific request. We will receive no compensation from such referral.

#### **6) Performance-Based Fees**

We do NOT have performance based fees.

In Benjamin Graham’s classic book Security Analysis, he wrote about how speculatively capitalized companies can create a conflict of interest in which investors with very little invested can have little downside and a lot of upside... what he wrote as, “Heads I win, tails you lose”. The SEC has adopted the same language in its description of performance based fees.

We think the public should avoid firms that do. If a manager has a good performance one year, they could be overly compensated, for if in the future the account drops, the investors will be stuck with the losses. This incentive system encourages risk taking, and thus we have no performance based fees.

#### **7) Types of Clients**

We provide investment advice to individuals, primarily retirees. Clients may also include: pension and profit sharing plans, trusts, estates, charitable organizations, and corporations or other business entities.

We prefer clients that are living below their means; spendthrifts need not apply. We have tried to work with spendthrifts, but what we have experienced is they seem to be incapable of staying within their means. A certain amount of discipline is required on the part of the client to have a successful outcome.



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

### **8A) Methods of Analysis and Investment Strategies**

Our strategies may include: long-term purchases, short-term purchases, trading, short sales, margin transactions, and option writing (including covered options, uncovered options, or spreading strategies).

Our GIPS (Global Investment Performance Standards) composite description is as follows:

Our portfolio as having an investment objective of seeking a return similar to the long-term historical stock market return with less volatility, in an opportunistic manner, using a full range of investment strategies to invest in stocks, bonds, and options. Primary investment targets are dominant companies in attractive industries in a global context positioned to appreciate from their leadership position. Opportunities for improving income and risk adjusted returns are sought through careful security selection with a focus on this dominant market position, strong relative earnings strength and high profit margins. These portfolios have comparatively high dividend yields and low price earnings multiples. When market conditions warrant, volatility is reduced by selling calls and puts to increase cash flow. This strategy is for investors with a greater than 10-year time horizon plus the ability to tolerate moderate risk and volatility. An appropriate benchmark for this composite would be a blend of 80% S&P 500 Index and 20% Barclays Capital Municipal Bond Index. An alternative benchmark is a blend of 80% AC World and 20% Barclays Capital Municipal Bond Index.

Past returns and volatility are not indicative of future returns and volatility. Our clients should have a minimum ten-year time horizon, as investment in securities involves risk of loss.

Warren Buffet, the well-respected investor, has been quoted as saying the three books he has used over the years are Benjamin Graham's Security Analysis and The Intelligent Investor and Adam Smith's The Wealth of Nations. Robert has read all of them and it is no surprise that many of the names we have in our portfolio overlap with Mr. Buffett. We probably trade a little more than Warren. Other books that have had a large influence in our investing strategy have been In Search of Excellence, Good to Great, Built to Last, The Assent of Money, Keynes's work, Nick Murray's work, Jeremy Siegel's work, Richard Koos's work and many more. Reading increases knowledge, and sound investing is a combination of knowledge, wisdom, and judgment.

**8B.)** The history of money would show the greatest risk is the purchasing power of our currency. It is the defense of our client's purchasing power that we endeavor. Most academics would say the US Treasury Bond is a risk free investment. In dollar terms, that is probably correct. It now becomes a paradox, the safest investments - Treasuries, CD's and cash- have historically performed the worst. Generally the greatest risk we all have is preserving our purchasing power.

*Stocks* are probably the best way to preserve purchasing power, most similar to what Adam Smith (1776) described as a "capital asset." Our companies are typically an income producing

asset like owning your own business, without the effort of running your own business. The risk is that basically 4 out of 5 years are up, but every 7-10 years we suffer a correction, and corrections can be 30-50% decline peak to trough. We have also seen a paradox that individuals have money towards the end of the cycle and need money during the decline. Thus if the investments are made toward the end of the advance, and sold during the decline, this will create a horrific return.

*Bonds* are more difficult to ascertain risk and generally require a more cerebral effort. Bonds have interest-rate risk, default risk, and reinvestment risk, in addition to others. We usually invest in municipal bonds. We like the “non-commercial” aspects of cities, states and school districts.

Our strategy with bonds has been that “return of the money can be more important than the return on the money”. We generally pick General Obligation bonds, previously all AAA rated and insured. We like to go toward the longer term, looking for the highest return we can get without going over the line of complicated securities that might have risks we have never seen before.

*Options* We typically write covered calls on companies that have recently moved higher. Sometimes it is for a price we would be willing to sell the company, but sometimes it is more of a hedge to protect us from a modest decline. The hedge is quite small, usually 1-2% so hedge is probably too strong of a word. If the stock moves up or down a couple percent we will probably be happy we did it. Many times this is not the case, the two extremes are a violent move up or down. This is where it could get complicated but both of these are bad. Either we took the risk and only made a little, or we took the risk and got punished. The one attribute that has protected us is the fundamental analysis we did in the first place. By purchasing generally larger, high quality companies for the right price, we typically do not see the volatility that the market could experience. This may not always be the case, and it is why at times we may not be writing options.

We typically write puts on companies we want to purchase. The asymmetries of risks are the same as a covered call. If the stock goes up we make a small amount, if it does down we can lose a lot. Our only protection from a having a below average experience is the judgment of purchasing a stable company during the lower end of its trading range.

*Portfolio* The one risk we will always have in one form or another is market risk. We can do all of the research we want, but if the overall market is down, we will probably be down. In 2008 the S&P 500 was down 38%, The World Index was down 42% and we were down 28%. Our worst quarter was near the very end of the correction. This was a result of our net purchasing into the decline. In reflecting back, not knowing when the bottom is, we do not think we would have done anything different. Thus if the market had not corrected, our returns could have been worse. We do not know the future but if we get to relive another crisis, we plan to again net purchase capital assets as the overall market declines. Below we will go into the benchmarks we typically track. The future is uncertain and to the extent something happens that is extreme, we will probably suffer if it is seen as bad, and prosper if it is seen as beneficial.

## **Benchmarks**

An 80% equity 20% fixed income is an appropriate index. An appropriate US Index would be a blend of 80% S&P 500 with dividends (S&P 500) and 20% Barclay's Capital Municipal Bond Index (Muni). An appropriate Global Index is a blend of 80% MSCI World Index developed and emerging with dividends net of tax (World) and 20% Muni Index. The volatility of the indices may differ from the volatility of the composite. Our historical volatility has been closer to an 80/20 than 100% equity, for we may have cash and bonds and the options we use tend to reduce volatility. Past volatility of our portfolio or any of the index blends may not be the indicative of future volatility. The index price data is provided from Interactive Data.

The Standard & Poor's 500 (S&P 500) is a market cap weighted index of the prices of 500 large cap common stocks actively traded in the United States. The stocks included in the S&P 500 are those of large publicly held companies. Standard and Poor's is a division of McGraw-Hill Companies. The index we are using includes the dividends. Typically we have more exposure to U.S. markets than a true market cap weighted All Country World index.

The World Index (MSCI All Country World Index) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As of January 2009, the index consisted of 46 country indices comprising 23 developed and 23 emerging market country indices. It is maintained by MSCI, formerly Morgan Stanley Capital International, and priced in US Dollars. The MSCI World Index measures the market performance, including both price performance and income from dividend payments. The total return methodology reinvests net dividends in the index on the day the security is quoted ex-dividend. The dividend is reinvested after deduction of withholding tax, applying the rate to non-resident individuals who do not benefit from double taxation treaties. MSCI uses withholding tax rates applicable to Luxembourg holding companies.

The Barclay's Capital Municipal Bond Index (Muni Index) was formerly the Lehman Brothers U.S. Municipal Index covers the US dollar-denominated long term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. The composition is rebalanced monthly at each month end and represents the set of bonds on which index returns are calculated. Interest and principal payments earned are held in the index without a reinvestment return until month-end when it is removed from the index.

The blends are a weighted average of the period's returns of the S&P 500 and the Muni Index, and the MSCI World Index and the Muni Index.

**Risk:** The Adviser does not guarantee the future performance of the account or any specific level of performance, the success of any investment decision or strategy that the Adviser may use, or the success of the Adviser's overall management of the account. The Client understands that investment decisions made for the account by the Adviser are subject to various market, currency, economic political and business risks, and that those investment decisions will not always be profitable. The Adviser will manage only the securities, cash, and other investments held in the Client's account. In making investment decisions for the account, the Adviser will consider only the investments owned by the Client which the Client has disclosed to the Adviser.

We manage a client's multiple accounts as if they were one. Thus smaller accounts will not be diversified in a way to stand on its own, only as a piece of the whole. In cases where clients are liquidating, we will sell securities as required, and the client acknowledges that such sales will be reducing the diversification of the remaining portfolio. Clients that want to borrow on securities are allowed to and should realize the volatility of the net portfolio will increase.

Assets are invested primarily in a diversified portfolio of New York Stock Exchange listed domestic and foreign stocks, occasionally in over-the-counter securities. Investments may also include: warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company securities (mutual funds), U. S. government securities, options contracts on securities, and interests in partnerships (oil and gas or real estate). Initial public offerings (IPOs) are not available through Rexford Capital. The money market fund charges each shareholder an investment management fee that is disclosed in the mutual fund prospectus. The brokerage firm usually charges a fee for stock and bond trades. Rexford Capital does not receive any compensation from mutual fund companies or custodians.

#### **8C.) Risk of Loss in a Particular Type of Security**

We manage a diversified portfolio of assets. Please refer to Section 8B. for risks of a particular asset.

#### **9) Disciplinary Information**

**Rexford Capital or management persons have NO disciplinary issues, either in the past 10 years nor pending.**

**9A.) No** criminal or civil action in a domestic, foreign or military court of competent jurisdiction in which Rexford Capital or management persons

1. was convicted of, or pled guilty or nolo contendere ("no contest") to
  - (a) any felony;
  - (b) a misdemeanor that involved investments or an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, or extortion; or
  - (c) a conspiracy to commit any of these offenses;
2. is the named subject of a pending criminal proceeding that involves an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses;
3. was found to have been involved in a violation of an investment-related statute or regulation; or
4. was the subject of any order, judgment, or decree permanently or temporarily enjoining, or otherwise limiting, the supervised person from engaging in any investment-related activity, or from violating any investment-related statute, rule, or order.

**9B.) No** administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, nor any foreign financial regulatory authority in which Rexford Capital or management persons



1. was found to have caused an investment-related business to lose its authorization to do business; or
2. was found to have been involved in a violation of an investment-related statute or regulation and was the subject of an order by the agency or authority
  - (a) denying, suspending, or revoking the authorization of Rexford Capital or management persons to act in an investment-related business;
  - (b) barring or suspending Rexford Capital or management persons association with an investment-related business;
  - (c) otherwise significantly limiting Rexford Capital or management persons's investment-related activities; or
  - (d) imposing a civil money penalty of more than \$2,500 on Rexford Capital or management persons.

**9C.) No self-regulatory organization (SRO) proceeding in which Rexford Capital or management persons**

1. was found to have caused an investment-related business to lose its authorization to do business; or
2. was found to have been involved in a violation of the SRO's rules and was: (i) barred or suspended from membership or from association with other members, or was expelled from membership; (ii) otherwise significantly limited from investment-related activities; or (iii) fined more than \$2,500.

**9D.) No other proceeding in which a professional attainment, designation, or license of Rexford Capital or management persons was revoked or suspended because of a violation of rules relating to professional conduct.**

**10) Other Financial Industry Activities and Affiliations**

**10A.)** We are not registered as a securities broker-dealer nor have an application pending.

**10B.)** We are not registered as a futures commission merchant, commodity pool operator, or commodity trading adviser, nor have an application pending.

**10C.)** We do not have arrangements with a related person that is a

- a. broker-dealer, municipal securities dealer, or government securities dealer or broker
- b. investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund)
- c. other investment adviser or financial planner
- d. futures commission merchant, commodity pool operator, or commodity trading advisor
- e. banking or thrift institution
- f. accountant or accounting firm
- g. lawyer or law firm
- h. insurance company or agency
- i. pension consultant
- j. real estate broker or dealer
- k. sponsor or syndicator of limited partnerships.

1. futures commission merchant or dealer or entity that packages limited partnerships. Neither we nor any related person serve as general partner for investments we solicit.

**10D.)** We recommend financial advisors but don't receive compensation for it.

## **11) Code of Ethics**

**Objectivity:** We strive to be as unbiased as possible in providing advice to clients and we practice on a fee-only basis.

**Confidentiality:** We shall keep all client data private unless authorization is received from the client to share it. We shall treat all documents with care and take care when disposing of them. Relations with clients shall be kept private.

**Competence:** We shall strive to maintain a high level of knowledge and ability. We shall attain continuing education at least at the minimum level required by NAPFA, 60 hours every two years. Members shall not provide advice in areas where they are not capable.

**Fairness & Suitability:** Dealings and recommendation with clients will always be in the client's best interests. We put our clients first.

**Integrity & Honesty:** We will endeavor to always take the high road and to be ever mindful of the potential for misunderstanding that can accrue in normal human interactions. We will be diligent to keep actions and reactions so far above board that a client, or other professional, would not doubt our intentions. In all actions, we should be mindful that in addition to serving our clients, we are about the business of building a profession and our actions should reflect this.

**Regulatory Compliance:** We will strive to maintain conformity with legal regulations.

**Full Disclosure:** We shall fully describe method of compensation and potential conflicts of interest to clients and also specify the total cost of investments.

**Professionalism:** We shall conduct ourselves in a way that would be a credit to ourselves at all times. The code involves integrity, honest treatment of clients, and treating people with respect.

### **11A.) Description of Code of Ethics**

Our code is available upon request. We are members of four industry groups and are subject to their codes of conduct. The codes evolve over time and we intend to evolve with them. These are NAPFA (National Association of Personal Financial Advisors) for they are particularly good at avoiding conflicts, CFP (Certified Financial Planner) for their efforts to help in financial planning, the CFA (Chartered Financial Analyst) for their efforts in security analysis, and IMCA (Investment Management Consultants Association) for their efforts in investment management. We are a fiduciary, and we feel if the 8,000 IMCA members, the 35,000 CFP's, the 200,000 CFA's and the maybe



1,000,000 brokers were held to the same standard of conduct as the 2,000 NAPFA registered financial advisors, the public would be better served.

**11B.) Material Financial Interest**

Rexford Capital does not recommend clients invest in any investment that related persons have a material financial interest. We do recommend that clients invest in securities that Rexford Capital and its clients concurrently own; however, our positions in these publicly traded companies are considerably less than 1%, so as to not affect the current market price.

**11C.) Participation or Interest in Client Transactions:**

When trading in our account we typically trade in a block with clients. If we do not trade with clients, we have a 48 hour rule. This prevents employees from benefiting from trading before a client.

Robert Rexford and Kim Rexford have their entire investable net worth in the securities recommended by Rexford Capital. Rexford Capital and its employees buy or sell securities that are also held by clients. Firm personnel hold securities recommended for purchase or sale on behalf of clients. The Firm's policy allows for simultaneous recommendations or trades, but requires that the interests of clients are considered first. We have a policy that prevents front running, the practice of trading before a client. Since all securities under consideration are public and are widely held, we do not believe we will have a large impact on the price of securities. To avoid any conflicts, we do not trade against clients; our trades in the same security are done from the same side. A copy of our Code of Ethics is provided.

Front running is the illegal practice of a broker putting in an order before a customer's order. This is related to trading with insider information, for if you know of a pending trade you might be able to benefit from such information. Rexford Capital prohibits front running and we have a policy regarding employees' personal trading to deal with our prohibition with front running. At Rexford capital we generally deal with this by trading with clients and sharing our average price.

**11D.) Concurrent Trades**

We typically purchase a certain percentage of the entire household net worth. Thus a 2 million dollar account will be looking at twice the position of a one million dollar account. Unless a client has a unique situation, either they deposited cash, deposited a security, or needed cash, all of our trades are done through a block trade. This allows us to purchase a security in one or several trades, bundle them together as if it were one trade and allocate to all of the clients, including ourselves, at the average price. If there is a partial fill, we have a process to allocate fairly. By purchasing securities in a block, everyone gets the average price. If a conflict arises, we will favor the client.

### **Privacy Notice**

We at Rexford Capital Inc. respect your financial privacy. We recognize that you have provided us with private personal financial information and want you to know our policy regarding that information.

We collect your personal financial information from the following sources:

- Information you have given us such as investment advisory agreements, brokerage account applications, and other documents you completed while opening and maintaining your accounts with us.
- Information you have given us orally.
- Information we receive from third parties such as brokerage firms, outside managers and banks about your transactions with us or with others.

We do not disclose any nonpublic personal financial information about you to anyone, except in the following circumstances:

- When we are required to execute transactions for your account or otherwise to provide services you request.
- When you have specifically authorized and directed us to do so, i.e. under the Wealth Advisor Service, pertinent information will be forwarded to our team of professionals.
- When required by law, when our books and records are examined by federal or state regulators.

We maintain physical, electronic and procedural safeguards within the firm's offices to protect your privacy.

### **12) Brokerage Practices**

Specific custodian recommendations are made to clients based on their needs. Most of our clients have simple needs, but occasionally we will hear of a special need, such as a prepaid forward or a commodity trade. For most of our clients we recommend custodians based on what we see as the best execution of orders at reasonable commission rates. The ability to offer block trades and options are two limiting factors.

Rexford Capital recommends discount brokerage firms and trust companies (qualified custodians). Rexford Capital does not receive fees or commissions from any of these arrangements.

Fidelity makes Advisor Channel software available to us in order to execute block trades through Fidelity and to download information on clients' accounts electronically. This software is not available for sale, and all Advisors using Fidelity are equipped with Advisor Channel.

Occasionally we make mistakes in order entry. Fidelity Investments credits or debits our corporate account with any gains or losses that result. Since it is our capital on the line we may take steps to minimize any losses. At times our efforts may be successful, turning a loss into a gain.

We feel that some clients are better served with our Wealth Advisory Service. Since the fee is higher with Wealth Advisory, it creates a conflict of incentive to recommend it.

We want our employees to stay as current with Financial Planning and Investment Management. One of the methods we use is to attend conferences. Conferences can serve as an advertising venue for companies marketing products and services to investment advisors. The firm does not make product decisions based on its attendance. Some events charge admission, some are subsidized, and some are free. Below is a list of conferences attended or under consideration for attendance by firm personnel, showing what entity covers expenses.

	Travel	Lodging	Food	Conference
NAPFA	RCI	RCI	RCI	RCI
Schwab Impact Conference (SCH)	RCI	RCI	RCI	RCI
Schwab Solutions Conference (SCH)	RCI	RCI	SCH	SCH
TD Ameritrade National (TDAMTD)	RCI	RCI	TDAMTD	TDAMTD
Fidelity Educational Workshops (FID)	RCI	RCI	FID	FID
IMCA National (IMCA)	RCI	RCI	RCI	RCI
FPA National (FPA)	RCI	RCI	RCI	RCI

\*RCI – Rexford Capital, Inc.

All computers, research, software, postage, marketing materials, seminars, client dinners, advertising, furniture, copiers and printers are paid for by Rexford Capital. Fidelity does make Advisor Channel software available to us in order to execute block trades through Fidelity and to download information on clients' accounts electronically. Advisor Channel is not available for sale, and all Advisors using Fidelity are equipped with Advisor Channel.

From time to time we are entertained by a vendor when we attend a conference or seminar. It is our goal to pay our costs, but we will allow a vendor to pay as long as the cost is modest.

#### **12A.) Research and Soft Dollar Benefits**

Generally, when dealing with a national brokerage firm, we are advocates of the least expensive option. Having written that, integrity and the ability to perform is absolutely critical to handling of money. As the history of sovereign debt has been a history of default. A similitude has been the history of banks, brokerage firms and insurance companies have been a history of catastrophe. A recent example we learned was from a former employee of a large online brokerage firm. The firm had dozens of staff to help transfer accounts in, but just one person to transfer accounts out. This kind of information is difficult to obtain. If we

learn of a policy that seems to offer a risk to the client, we will avoid such firms. We would avoid any firm, regardless of savings, that had such a predatory practice.

- 1)** We have never had a soft dollar relationship. We see this as a gross conflict of interest, a misuse of client property, and a kick back in the rawest sense of the word.
  - a)** We pay for our own research. If we received research or other product or service from the trades we did through the custodian, we would have a gross conflict of interest, so we do not.
  - b)** We do NOT accept benefits from the custodian based on our behavior. This would be a conflict of interest, an incentive to behave in a way that would not be in the interest of the client. Anyone calling themselves a Fiduciary must avoid these conflicts.
  - c)** We do NOT cause clients to pay more for transactions and in return receive direct or indirect benefits. In common vernacular we do not accept kickbacks. We continually check with Fidelity, Schwab, TD Ameritrade, and Raymond James to compare commissions pricing to confirm that we are receiving the best price and execution.
  - d)** We do NOT accept soft dollars. If the level of trading we do allows us to get a lower price in any form, the savings will go directly to the client. Each client will benefit to the extent that the client has executed transactions.
  - e)** Rexford Capital, our employees and related persons do NOT receive any products or services from the brokerage commissions. The only product we receive is Fidelity Advisor Channel and Wealth Central - two products that are not available for sale, nor do they require any amount of activity to receive them. They are products Fidelity has developed to help Advisory Firms transact business electronically.
  - f)** We did NOT have any soft dollar transactions in the past fiscal year, nor since the founding of the firm.
- 2)** We do NOT participate in directed brokerage. In the past few years, firms like Charles Schwab and TD Ameritrade have been recruiting firms to their platform using potential referrals as an inducement. Schwab has gone so far as to have advisors actually pay thousands of dollars to receive this referral. We see this as a gross conflict of interest and a “you scratch my back and I’ll scratch yours”.
  - a)** As of this writing, we have never received a referral from Fidelity, and since they are a competitor, it is unlikely we will get one. If we get one it will be presumably from the reputation our firm. It will not be because we paid them for the referral.

b) Since we do not pay any brokers for client referral, we do not have any procedures to deal with such conflict. We think the best procedure is to just not do it.

3)

**Directed Brokerage**

a) We require accounts that we manage to have the assets at Fidelity. Prior to 2011, we did not require any client to have an account at Fidelity. But in eight years, we have not met anyone that would have preferred to pay a higher commission through Schwab, Ameritrade, Waterhouse, Raymond James or any of the full service firms. Not all advisors require clients to direct brokerage, and at times, there may not be most favorable execution that may cost clients more money. We have only used Fidelity's capital in the purchase and sale of bonds. Fidelity has BondTraderPro with a network of 175 brokers-dealers that allows us to access other firm's capital on 35,000 securities. Bond Trader Pro allows us to purchase from other brokers inventory and allows them to bid on our bonds.

b) We do NOT permit clients to direct brokerage. There is no easy way to clear trades fairly through two or more firms. Whoever gets to trade first should win. We have concluded it is best to clear through one firm, until that firm is inferior and then we will try to move all accounts to another firm.

12B.) We prefer to aggregate trades whenever possible, thus allowing everyone to share an average price. This will allow us to work large orders in what we think is usually the best way, limit orders. Trading has a living characteristic to it. If you show a large order in a thinly traded stock, you will usually see the price move away from you. If it is a large order we can put in a series of smaller trades. If there is a big order on the other side we can fill it with a market order. If we get a partial fill, or if the market is moving away from us, we may need to change some prices. Whatever happens, we are always trying to get the best price. When the work is complete, by aggregating the trades, the entire client base will share the average price. There is no discount on the commission; whatever Fidelity charges for each account will be unaffected by the size of the overall block. With bond aggregation, there is usually a discount to the clients' price.

**13) Review of Accounts**

13A.) Investment Management reviews are performed continually by Robert Rexford. We have technologies that will allow us to manage thousands of accounts without any additional infrastructure. Conditions that trigger a review are typically changes in the price of securities, and the redistribution of assets into more attractive or less risky positions.

13B.) Reviews are also performed on a client-specific event which would include changes in a client's own situation which might include a tax status, an employment event, retirement or a need to raise cash. We also check each client's rate of return with that of our average. If there is a disparity we will look for reasons.



**13C.)** Clients will receive a Quarterly Performance Review from Rexford Capital. We will deposit it in an electronic vault for quicker dissemination and in the spirit of saving the earth's resources. We provide the vault for the clients benefit. For those that prefer traditional methods of mailing, we will send the reports by the US Post office.

**14) Client Referrals and Other Compensation**

**14A.)** We do NOT receive any economic benefit from non-clients for providing investment advice or other advisory services to our clients.

**14B.)** We do NOT compensate any person that is not a supervised employee. No related party compensates any person that is not a supervised employee. We have been solicited by brokers that want a percentage of the commission of the clients they refer. This is a gross conflict. The prospect needs to understand why the referral is being made, because the broker really believes in the service or because he is getting paid to recommend firms.

**15) Custody**

Fidelity is our custodian and the definitive source for account information. Fidelity typically sends monthly statements; for inactive accounts, annuities, or 529 accounts, the statements are quarterly. In addition Fidelity offers online access so many security values are priced daily or even intraday. Rexford Capital sends statements quarterly. Our statements are for information purposes only; Fidelity will be the definitive source. If a discrepancy exists we ask any client to let us know so we can correct it. Our reports are uploaded to an electronic vault so they can be viewed electronically.

**16) Investment Discretion**

When the client executes a Full Trading Authorization, Rexford Capital has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, the amount of the securities to be bought or sold, and brokerage to be used. We do not accept limitations to the Full Trading Authorization. Rexford Capital does not receive any portion of the transaction fees or commissions paid by the client to the custodian.

**17) Voting Client Securities**

**17A.)** Our proxy policy is to vote what we believe to be in the clients' best interest. Clients may request records from us indicating how we voted on any particular proxy issue or our proxy policies. We vote with the financial interests of the shareholders. If a client asked us to vote in a way that would not maximize the value to shareholders, we would ask the client to remove the security from our management and hold it somewhere else. Due to the small size of our firm, there should be no material conflicts of interest.

**17B.)** Not applicable.

**18) Financial Information**

We have gone out of our way to avoid conflicts of interests. We see no advantage for us to hold the client assets, as it is a possibly grave conflict of interest. The greatest securities scams have involved misuse of client assets, going back to Charles Ponzi himself, Stanford



Group, and Bernie Madoff. As long as there are regulated custodians there is no reason to have the same firm giving investment advice and holding custodian assets. Rexford Capital does not serve as a custodian for client funds or securities, thus no balance sheet is required.

**18A.)** We do NOT require or solicit prepayment of fees.

**18B.)** There is no financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.

**18C.)** We have NOT been subject to a bankruptcy petition at any time, including the past 10 years.

#### **19) Requirements for State-Registered Advisers**

**19A.)** Robert S. Rexford (1964) has a Bachelor of Science in Economics with Financial Applications from Southern Methodist University (1987) and a BBA from the Cox School of Business at Southern Methodist University. He is a Certified Financial Planner Certificant<sup>TM</sup>, and National Association of Personal Financial Advisors (NAPFA) registered Fee-Only advisor, a member of the Houston NAPFA study group, a member of the Financial Planning Association (FPA) and member of the Houston Chapter of the FPA, member of the CFA Institute and member of IMCA (Investment Management Consulting Association). He is a Texas Life and Health Insurance Counselor and has the Series 65 (Investment Advisor Exam).

Marla G. Williams was born in 1959. From 1998 to 2000 she worked at Maddox, Thompson & Associated, CPA. In 2000-2003 she joined Horizon Advisors, LLC. In 2003 she joined Rexford Capital as an executive assistant. Her background includes over 13 years of business experience, primarily in the financial services industry. She has a strong background in administration, management and computer support in financial planning, asset management and accounting. In 2005 she was promoted to Chief Compliance Officer at Rexford Capital.

Kim Wells Rexford (1967) has a Bachelor's of Business Administration from Southern Methodist University. She was a commercial loan assistant at Frost Bank for 7 years (1990-1997), where she trained all new employees on their proprietary database. She has been Secretary and Treasurer of Rexford Capital, Inc. since its inception in 2003.

**19B.)** We are NOT engaged in any other business.

**19C.)** We are NOT compensated by performance-based fees. This creates a "Heads I win, Tails you lose". This would incentivize an advisor to potentially, probably inevitably, take more risk.

**19D.)** No management person has been involved in any of the legal events below:

- 1) We have not been found liable in an arbitration claim in excess of \$2,500 involving:
  - A. an investment or an *investment-related* business or activity;
  - B. fraud, false statement(s), or omissions;
  - C. theft, embezzlement, or other wrongful taking of property;

- D. bribery, forgery, counterfeiting, or extortion; or
  - E. dishonest, unfair, or unethical practices.
- 2) An award or otherwise being *found* liable in a civil, *self-regulatory organization*, or administrative *proceeding involving* any of the following:
- A. an investment or an *investment-related* business or activity;
  - B. fraud, false statement(s), or omissions;
  - C. theft, embezzlement, or other wrongful taking of property;
  - D. bribery, forgery, counterfeiting, or extortion; or
  - E. dishonest, unfair, or unethical practices.

**19E.)**We do not have any other relationships with any other issuer of securities

REXFORD CAPITAL  
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