

# Disclosure Brochure

April 27, 2017

*Investing in a Good Life*  
**MCKINLEY | CARTER**

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This brochure provides information about the qualifications and business practices of McKinley Carter Wealth Services, Inc. (hereinafter "MCWS" or the "Firm"). If you have any questions about the contents of this brochure, please contact David McKinley at (304) 230-2400. 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 MCWS is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

MCWS is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## Item 2. Material Changes

In this Item, MCWS is required to discuss any material changes which have been made to the brochure since the last annual amendment. MCWS has the following material changes to disclose:

### **Institutional Intelligent Portfolios™**

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MCWS has made amendments throughout the Brochure to reflect that where deemed appropriate, certain investment management services are provided by MCWS to its wealth management clients through Institutional Intelligent Portfolios™, an automated, online investment management platform sponsored by Schwab Wealth Investment Advisory, Inc. (the “Program” and “SWIA”, respectively). Through the Program, MCWS offers a range of investment strategies the Firm has constructed and manages. Each strategy consists of a portfolio of exchange-traded funds (“ETFs”) and a cash allocation in accordance with the investment objectives of the client. A full description of the Program is available throughout the Disclosure Brochure provided to clients of the Program.

### **Referral Arrangement**

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MCWS has amended Item 10 of the Brochure to reflect a referral arrangement with another investment adviser, Russell Investments Implementation Services, LLC.

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## Item 4. Advisory Business

MCWS is an investment advisory firm providing financial planning, consulting, investment management and wealth management services. Prior to engaging MCWS to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with MCWS setting forth the terms and conditions under which MCWS renders its services (collectively the “Agreement”).

David McKinley and William Carter are the principal owners of MCWS, which has been in business as an independent SEC registered investment adviser since August 2005. As of December 31, 2016, MCWS had \$887,720,083 in assets under management, of which \$678,195,330 was managed on a discretionary basis and \$209,524,753 was managed on a non-discretionary basis.

This disclosure brochure describes the business of MCWS. Certain sections will also describe the activities of Supervised Persons. Supervised Persons are any of MCWS’s officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on MCWS’s behalf and is subject to MCWS’s supervision or control.

### **Investment Management and Wealth Management Services**

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Clients can engage MCWS to provide investment management services for all or a portion of their assets on a discretionary or non-discretionary basis.

In addition, MCWS may provide clients with wealth management services which includes a broad range of comprehensive financial planning and consulting services as well as discretionary and/or non-discretionary management of investment portfolios. MCWS will have in-depth interviews with wealth management clients in order to evaluate such issues as investments and other assets, business/career situation, insurance, risk management, retirement, education, estate planning, debt management, tax, and cash flow needs of the client. MCWS will then discuss the results of the evaluation with the client to determine how MCWS can help the client take action to address such issues. MCWS is not required to provide a written report to the client. MCWS may provide a written report for an agreed upon additional fee if a written plan is requested by the client.

MCWS primarily allocates clients’ investment management assets among mutual funds, exchange-traded funds (“ETFs”), individual debt and equity securities, and/or options, as well as independent investment managers (“Independent Managers”), in accordance with the investment objectives of the client. MCWS also recommends that certain eligible clients invest in privately placed securities, which include debt, equity and/or interests in private funds such as real estate funds, hedge funds, private equity funds, etc. MCWS may also provide advice about any type of investment held in clients’ portfolios.

MCWS also may render non-discretionary investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, and/or 529

plans or other products/accounts that may or may not be held by the client's primary custodian. In so doing, MCWS either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

## **Institutional Intelligent Portfolios™**

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Where deemed appropriate, certain investment management services may be provided by MCWS offers to its wealth management clients through Institutional Intelligent Portfolios™, an automated, online investment management platform sponsored by Schwab Wealth Investment Advisory, Inc. (the "Program" and "SWIA," respectively). Through the Program, MCWS offers a range of investment strategies the Firm has constructed and manages. Each strategy consists of a portfolio of exchange-traded funds ("ETFs") and a cash allocation in accordance with the investment objectives of the client.

Clients' portfolios are held in a brokerage account opened by the clients at Charles Schwab & Co., Inc. ("CS&Co") through its Institutional Intelligent Portfolios (IIP) platform. MCWS is independent of and not owned by, affiliated with, or sponsored or supervised by CS&Co or its affiliates. The Program is described in the Schwab Wealth Investment Advisory, Inc. Institutional Intelligent Portfolios™ Disclosure Brochure ("the Program Disclosure Brochure"), which is delivered to clients by SWIA.

MCWS, and not SWIA, is the client's investment advisor and primary point of contact with respect to the Program and is responsible for determining the appropriateness of the Program for the client, choosing a suitable investment strategy and portfolio on an ongoing basis. SWIA's role is limited to delivering the Program Disclosure Brochure to clients and administering the Program so that it operates as described in the Program Disclosure Brochure.

MCWS has contracted with SWIA to provide the Firm with the technology platform and related trading and account management services for the Program. This platform enables MCWS to make the Program available to clients online and includes a system that automates certain key parts of the firm's investment process (the "System"). The System includes an online questionnaire that helps MCWS determine the client's investment objectives and risk tolerance and select an appropriate investment strategy and portfolio. Clients should note that the Firm will recommend a portfolio via the System in response to the client's answers to the online questionnaire. The client may then indicate an interest in a portfolio that is one level less or more conservative or aggressive than the recommended portfolio, but MCWS then makes the final decision and selects a portfolio based on all the information the Firm has about the client. The System also includes an automated investment engine through which MCWS manages the client's portfolio on an ongoing basis through automatic rebalancing and tax-loss harvesting (if the client is eligible and elects).

Clients do not pay fees to SWIA in connection with the Program, but the Firm charges clients a fee for its services as described below in Item 5. MCWS's fees are not set or supervised by SWIA, CS&Co or any of their affiliates (collectively, "Schwab"). Neither MCWS nor clients pay brokerage commissions or any

other fees to Schwab as part of the Program. Schwab, however, does receive other revenues in connection with the Program, as described in the Program Disclosure Brochure. MCWS does not receive any part of any other revenues Schwab receives in connection with the services Schwab provides to clients of the Firm enrolled in the Program.

MCWS does not pay SWIA fees for its services in the Program so long as the Firm maintains \$100 million in client assets in accounts at CS&Co that are not enrolled in the Program. If MCWS does not meet this condition, then the Firm pays SWIA an annual fee of 0.10% (10 basis points) on the value of its clients' assets in the Program. This fee arrangement gives MCWS an incentive to recommend or require that the Firm's clients with accounts not enrolled in the Program be maintained with CS&Co.

Additional information regarding brokerage practices and conflicts of interests relating to the Program are described in Item 12 below.

### **Use of Independent Managers**

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As mentioned above, MCWS recommends that certain clients authorize the active discretionary management of a portion of their assets by and/or among certain independent investment managers Independent Managers, based upon the stated investment objectives of the client. The terms and conditions under which the client engages the Independent Managers are set forth in a separate written agreement between MCWS or the client and the designated Independent Managers. MCWS renders services to the client relative to the discretionary and/or non-discretionary selection or recommendation of Independent Managers. MCWS also monitors and reviews the account performance and the client's investment objectives. MCWS receives an annual advisory fee which is based upon a percentage of the market value of the assets being managed by the designated Independent Managers.

When recommending or selecting an Independent Manager for a client, MCWS reviews information about the Independent Manager such as its disclosure statement and/or material supplied by the Independent Manager or independent third parties for a description of the Independent Manager's investment strategies, past performance and risk results to the extent available. Factors that MCWS considers in recommending an Independent Manager include the client's stated investment objectives, management style, performance, reputation, financial strength, reporting, pricing, and research. The investment management fees charged by the designated Independent Managers, together with the fees charged by the corresponding designated broker-dealer/custodian of the client's assets, may be exclusive of, and in addition to, MCWS's investment advisory fee set forth above. As discussed above, the client may incur additional fees than those charged by MCWS, the designated Independent Managers, and corresponding broker-dealer and custodian.

In addition to MCWS's disclosure documents, the client also receives the disclosure documents of the designated Independent Managers. Certain Independent Managers may impose more restrictive account requirements and varying billing practices than MCWS. In such instances, MCWS may alter its

corresponding account requirements and/or billing practices to accommodate those of the Independent Managers.

If MCWS refers a client to an Independent Manager where MCWS's compensation is included in the advisory fee charged by such Independent Manager and the client engages the Independent Manager, MCWS shall be compensated for its services by receipt of a fee to be paid directly by the Independent Manager to MCWS in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, as amended, and any corresponding state securities laws, rules, regulations, or requirements. Any such fee is paid solely from the Independent Manager's investment management fee, and does not result in any additional charge to the client.

### **Financial Planning and Consulting Services**

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MCWS may also separately provide clients with a broad range of comprehensive financial planning and consulting services outside of the wealth management services described above. The financial planning and consulting services may include pension consulting and non-investment related matters.

In performing its financial planning and consulting services (including those provided under a wealth management relationship), MCWS is not required to verify any information received from the client or from the client's other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. MCWS may recommend the services of itself, and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if MCWS recommends its own services. The client is under no obligation to act upon any of the recommendations made by MCWS under a financial planning or consulting engagement or to engage the services of any such recommended professional, including MCWS itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of MCWS's recommendations. Clients are advised that it remains their responsibility to promptly notify MCWS if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising MCWS's previous recommendations and/or services.

### **Institutional Wealth Management Services**

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MCWS may also provide specialized investment supervisory services to certain institutional clients, including Defined Benefit plans, endowments, foundations, non-profit organizations and small business trust and investment accounts. Institutional investment supervisory services will be tailored to the specific needs of the institutional client and may include management of only a portion of the institutional client's assets. In such situations, MCWS shall be expressly authorized to rely on information provided by the institutional client with respect to its goals and objectives for the assets allocated to MCWS without independent verification.

## **Philanthropic Services**

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MCWS provides consulting services to non-profit organizations. MCWS helps non-profits develop and sustain endowment funds by focusing on two areas:

- 1) Managing much needed reoccurring income internally to plan for the future, sustain important programs, and develop new ventures to meet the organization's ever-changing needs; and
- 2) Developing and implementing strategies for external growth to infuse new contributions from a variety of planned giving sources like cash, securities, and, long-term vehicles that will provide favorable income retention for the donor

MCWS professionally manages institutional endowments by helping organizations grow their assets through promoting and securing planned gifts, and facilitating strategic planning discussions to assess readiness, or prepare the organization, for growth.

## **Retirement Plan Services**

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MCWS provides retirement plan consulting services to sponsors of qualified retirement plans as defined by the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The services provided by MCWS vary from client to client, and will be tailored to the specific needs of the plan sponsor. Although not intended to be all inclusive, the retirement plan services provided may include plan design consulting, fiduciary best practices assessment, basic compliance reviews, investment policy development, fund menu design, fund manager search and selection, fund replacements, asset allocation modeling, investment monitoring and review, plan committee meetings, provider fee and service reviews, provider management, provider search and selection, transition services to a new provider, Section 404(c) consulting, education program strategy, and employee meetings.

## **Additions and Withdrawals to Accounts**

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Clients may make additions to and withdrawals from their account at any time, subject to MCWS's right to terminate an account. Clients may withdraw account assets on notice to MCWS, subject to the usual and customary securities settlement procedures. However, MCWS designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives.

MCWS tailors its advisory services to the individual needs of clients. MCWS consults with clients initially and on an ongoing basis to develop a suitable investment strategy based upon risk tolerance, time horizon and other factors that may impact the clients' investment needs.

Clients are advised to promptly notify MCWS if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon MCWS's management services. In each level of services described above, the frequency of communications and other services may differ among clients depending upon a number of factors including the size of the account and fees paid by



client, the overall revenue paid to MCWS, the likelihood of referrals, the general relationship and other factors.

## Item 5. Fees and Compensation

MCWS offers its services on a fee basis, which includes hourly and/or fixed fees, as well as fees based upon assets under management.

### Wealth Management Fees

MCWS provides wealth management services for an annual fee that is either: (i) a fixed fee, (ii) an asset based fee calculated as a percentage of the market value of the assets being managed by MCWS, or (iii) a combination of the fixed and asset-based fees. MCWS's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. MCWS does not, however, receive any portion of these commissions, fees, and costs.

The specific details of the fee arrangement shall be set forth in the client agreement. MCWS's fee shall be prorated and charged monthly, in arrears unless otherwise agreed to. For asset-based fees, the fee is determined based upon the market value of the assets on the last day of the previous month. MCWS's wealth management services fees are negotiable, but generally range from \$1,000 to \$20,000 on a fixed fee basis and/or following fee schedule:

<u>Total Household Assets Under Management</u>	<u>Annualized Fee</u>
The first \$500,000	1.25%
\$500,001 - \$2,000,000	1.00%
\$2,000,001 - \$5,000,000	0.75%
Above \$5,000,000	Customized

As described above in Item 4, neither MCWS nor clients enrolled in Institutional Intelligent Portfolios™ pay fees to SWIA or brokerage commissions or other fees to Schwab as part of the Program. Schwab, however, does receive other revenues in connection with the Program, as described in the Program Disclosure Brochure. MCWS does not receive any part of any other revenues Schwab receives in connection with the services Schwab provides to clients of the Firm enrolled in the Program. Brokerage arrangements with respect to Institutional Intelligent Portfolios™ are further described below in Item 12.

### Institutional Investment Management Services Fees

MCWS provides institutional investment supervisory services for an annual fee based upon a percentage of the market value of the assets being managed by MCWS. MCWS's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. MCWS does not, however, receive any portion of these commissions, fees, and costs. MCWS's annual fee for these services, as well as philanthropic services, is typically prorated and

charged quarterly, in arrears, based upon the market value of the assets being managed by MCWS on the last day of the previous quarter according to the following fee schedule:

<u>Total Household Assets Under Management</u>	<u>Annualized Fee</u>
The first \$5,000,000	0.75%
\$5,000,001 - \$15,000,000	0.50%
\$15,000,001 - \$25,000,000	0.40%
Above \$25,000,000	0.25%

### **Financial Planning and Consulting Fees**

MCWS may charge a fixed fee and/or hourly fee for financial planning and consulting services. These fees are negotiable, but generally range from \$350 to \$10,000 on a fixed fee basis and/or from \$50 to \$500 on an hourly rate basis, depending upon the level and scope of the services and the professional rendering the financial planning and/or the consulting services. If the client engages MCWS for additional investment advisory services, MCWS may offset all or a portion of its fees for those services based upon the amount paid for the financial planning and/or consulting services.

Prior to engaging MCWS to provide financial planning and/or consulting services, the client is required to enter into a written agreement with MCWS setting forth the terms and conditions of the engagement. Generally, MCWS requires one-half of the financial planning / consulting fee (estimated hourly or fixed) payable upon entering the written agreement. The balance is generally due upon delivery of the financial plan or completion of the agreed upon services.

### **Philanthropic Services Fees**

Certain philanthropic services are included in the institutional investment management fees described above. Where a client needs more services than those that are included in their institutional investment management services, the client can request the following services for additional fees:

<u>Philanthropic Service</u>	<u>Charge</u>
Planned giving manual for professional advisors	\$10,000
Promotion and management of Charitable Trusts <i>Includes writing and designing promotional brochure</i>	\$6,000
Promotion and management of Charitable Gift Annuities <i>Includes writing and designing promotional brochure</i>	\$6,000
Promotion and management of Pooled Income Funds <i>Includes writing and designing promotional brochure</i>	\$10,000
Promotion and management of Life Insurance Gifts <i>Includes writing and designing promotional brochure</i>	\$5,000

Quarterly Training Sessions and Mentoring of Staff

\$2,500 per session

For each of the services listed above (except for the training sessions), there is also an additional \$1,000 annual fee. In addition, there is \$500 annual fee for each planned giving instrument administered. With a charitable remainder trust there will be a fee for filing required annual tax returns. This fee is generally \$1,000 to \$1,500 and must be prepared by a certified public accountant.

## Retirement Plan Services Fees

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MCWS offers its retirement plan consulting services on a fee basis which may include a fixed fee as well as an asset based fee calculated as a percentage of the market value of the plan assets. The factors considered by MCWS in determining the fee include the specific services requested by the plan sponsor, plan complexity, type of plan, total value of assets in the plan, total number of eligible employees, number of active plan participants, as well as the number and location of the facilities operated by the plan sponsor.

MCWS's retirement plan consulting services fees are negotiable, but generally range from \$500 to \$100,000 on a fixed fee basis. The fixed fee can be in the form of a flat fee or per participant charge. For the asset based fee, MCWS's annual fee shall either be charged monthly or quarterly, in arrears, based upon the market value of the plan assets on the last day of the previous period. The annual asset based fee shall vary between 0.10% and 1.00% of the market value of the plan assets.

## General Negotiability of Fees

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MCWS, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.). In particular:

- 1) Not for profit organizations may be eligible for a discount off of MCWS's stated fee schedule;
- 2) Consistent with MCWS's employee benefits program, employees of MCWS and their immediate and extended family (as defined in the employee benefit program) are eligible for a discount as defined in the employee benefit program;
- 3) Those clients who were clients of other investment advisers that have merged with MCWS may continue to pay fees in accordance with the fee and frequency schedule agreed upon with a predecessor firm prior to the current formation of MCWS.

## Fees Charged by Financial Institutions

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As further discussed in response to Item 12 (below), MCWS generally recommends that clients utilize the brokerage and clearing services of Fidelity Institutional Wealth Services ("Fidelity") for investment

management accounts. In addition, MCWS may recommend that certain investment management clients utilize BOKF, N.A. ("BOKF"), Charles Schwab & Co., Inc. ("CS&Co"), or TD AMERITRADE Institutional, a division of TD AMERITRADE, Inc. ("TD Ameritrade"). MCWS participates in the institutional customer program offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. MCWS receives some benefits from TD Ameritrade through its participation in the program.

MCWS may only implement its investment management recommendations after the client has arranged for and furnished MCWS with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, Fidelity, BOKF, CS&Co, TD Ameritrade, any other broker-dealer recommended by MCWS, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the "Financial Institutions").

Clients incur certain charges imposed by the Financial Institutions and other third parties such as fees charged by Independent Managers (as defined below), custodial fees, charges imposed directly by a mutual fund or ETF in the account, which shall be disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, for assets outside of any wrap fee programs, clients incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to MCWS's fee.

## **Fee Debit**

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MCWS's Agreement and the separate agreement with any Financial Institutions authorizes MCWS or Independent Managers to debit the client's account for the amount of MCWS's fee and to directly remit that management fee to MCWS or the Independent Managers. Any Financial Institutions recommended by MCWS have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to MCWS.

## **Fees for Management During Partial Periods of Service**

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For the initial period of investment management services, the fees shall be calculated on a *pro rata* basis.

The Agreement between MCWS and the client will continue in effect until terminated by either party pursuant to the terms of the Agreement. MCWS's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Additions may be in cash or securities provided that MCWS reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. MCWS may consult with its

clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

If assets are deposited into or withdrawn from an account after the inception of a period, the fee payable with respect to such assets will not be adjusted or prorated based on the number of days remaining in the period.

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

MCWS does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.

## Item 7. Types of Clients

MCWS provides its services to individuals, families, pension/retirement and profit sharing plans, trusts, estates, charitable organizations, non-profit organizations, corporations and other business entities.

### Minimum Fee

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MCWS does not impose a minimum portfolio size or minimum annual fee upon individual clients. For its institutional investment management services, however, MCWS will typically charge a minimum annual fee of \$7,500. This minimum fee may have the effect of making MCWS's service impractical for certain institutional clients, particularly those with portfolios less than \$1,000,000 under MCWS's management. MCWS, in its sole discretion, may waive its minimum annual fee based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and pro bono activities.

Additionally, certain Independent Managers may impose more restrictive account requirements and varying billing practices than MCWS. In such instances, MCWS may alter its corresponding account requirements and/or billing practices to accommodate those of the Independent Managers.

### Eligibility and Account Minimum for Institutional Intelligent Portfolios™

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Clients eligible to enroll in Institutional Intelligent Portfolios™ include individuals, IRAs and revocable living trusts. Clients that are organizations (such as corporations and partnerships) or government entities, and clients that are subject to the Employee Retirement Security Act of 1974, are not eligible for the Program. The minimum investment required to open an account in the Program is \$5,000. The Program Disclosure Brochure describes related minimum required account balances for maintenance of the account, automatic rebalancing, and tax-loss harvesting.



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

### Methods of Analysis

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MCWS relies primarily on a combination of fundamental and technical methods of analysis.

Fundamental analysis involves an evaluation of an issuer's fundamental financial condition and competitive position. MCWS generally analyzes an issuer's financial condition, capabilities of management, growth prospects, earnings capacity, new products and services, as well as the company's position amongst its industry competitors in order to determine the recommendations made to clients. A substantial risk in relying upon fundamental analysis is that while the overall health and position of a company may be good, market conditions may negatively impact the security.

Technical analysis involves the examination of past market data rather than specific issuer information in determining the recommendations made to clients. Technical analysis may involve the use of mathematical based indicators and charts, such as moving averages and price correlations, to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. A substantial risk in relying upon technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that MCWS will be able to accurately predict such a reoccurrence.

### Investment Strategies

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MCWS utilizes fully diversified investment strategies that are comprised of a combination of individual stocks, exchange traded funds, and mutual funds (open-end and closed-end). The decision to use one security type or a combination thereof is based on the risk tolerance of the individual client, and the size of the account or group of accounts to which the strategy is being applied. The strategies are constructed in a way that balances risk with potential return and are structured for long-term capital appreciation. Each portfolio has a set long-term "strategic" asset allocation. MCWS will make shorter-term "tactical" asset allocation shifts according to our interpretation of the economic cycle.

In choosing Independent Managers, MCWS uses a strict and consistent process that focuses performance relative to peers and major indexes, MPT risk statistics, portfolio consistency, and manager/management team tenure. In choosing individual stocks, MCWS focuses on a history of consistent earnings, low debt, high return-on-equity, and stocks that are trading at a discount to their peers. MCWS's process involves a rigorous quantitative discipline to identify only those investments that possess the best combination of growth potential and value are candidates for inclusion in the strategies. This approach to choosing managers and securities is grounded in MCWS's belief that a portfolio comprised of top investment managers supplemented with high quality individual securities will produce superior returns over the long term.

## *Institutional Intelligent Portfolios™*

The Program allows MCWS to provide its investment strategies to investors or prospects who ordinarily would not be good candidates for the Firm's investment management services outside of the Program due to the size and characteristics of the investable assets.

MCWS will manage the portfolios, recommend an initial allocation to clients and periodically update that allocation recommendation. In addition, MCWS will provide to its clients the other wealth management services included in their agreements with MCWS.

For clients utilizing Institutional Intelligent Portfolios™, the Program Disclosure Brochure includes a discussion of various risks associated with the Program, including the risks of investing in ETFs, as well as risks to the underlying securities in which ETFs invest. In addition, the Program Disclosure Brochure also discusses market/systemic risks, asset allocation/strategy/diversification risks, investment strategy risks, trading/liquidity risks, and large investment risks.

## **Risks**

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### *Mutual Funds and ETFs*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to actual NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their *pro rata* NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares

or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

## *Options*

Options allow investors to buy or sell a security at a contracted strike price (not necessarily the current market price) at or within a specific period of time. Clients may pay or collect a premium for buying or selling an option. Investors transact in options to either hedge against potential losses or to speculate on the performance of the underlying securities. Options transactions contain a number of inherent risks, including the partial or total loss of principal in the event that the value of the underlying security or index does not increase or decrease to the level of the respective strike price. Holders of options contracts are also subject to default by the option writer which may be unwilling or unable to perform its contractual obligations.

## *Use of Independent Managers*

MCWS may recommend the use of Independent Managers. In these situations, MCWS continues to do ongoing due diligence of such managers, but such recommendations rely to a great extent on the Independent Managers' ability to successfully implement their investment strategies. In addition, MCWS generally may not have the ability to supervise the Independent Managers on a day-to-day basis.

## *Private Funds*

MCWS recommends that certain clients invest in private funds (e.g., real estate funds, hedge funds, private equity funds, etc.). Those seeking to invest in private funds typically must be "qualified clients" as defined in Rule 205-3 under the Advisers Act and "accredited investors" as defined in Rule 501 under Regulation D under the Securities Act of 1933. Private funds are not registered as investment companies under the Investment Company Act of 1940 and their securities are not registered under the Securities Act. Therefore, private funds and their securities are subject to less regulation than other types of registered funds and securities. The managers of these vehicles have broad discretion in selecting the investments. There may be few limitations on the types of investments that may be made and no requirement to diversify investments. There are numerous other risks and conflicts of interest related to investing in private funds. Clients should consult each private fund's private placement memorandum and/or other documents explaining such risks prior to investing.

## *Market Risks*

The profitability of a significant portion of MCWS's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks, bonds and other asset classes. There can be no assurance that MCWS will be able to predict those price movements accurately.

### *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

## Item 9. Disciplinary Information

MCWS is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. MCWS does not have any required disclosures to this Item.

## Item 10. Other Financial Industry Activities and Affiliations

MCWS is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain Supervised Persons.

### **Related Attorney**

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One of the MCWS's members, William W. Carter, is a licensed practicing attorney admitted to the Bar of the State of West Virginia. Mr. Carter maintains a limited legal practice, separate and distinct from MCWS's financial planning and investment advisory activities. Mr. Carter does not serve as attorney for any of MCWS's clients other than his family members who may directly retain him independently of MCWS. No portion of the financial plan or any other services rendered by MCWS to its clients should be interpreted as legal advice. Rather, clients should defer to the advice of their own attorney.

### **Relationship with Other Investment Adviser**

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MCWS may refer its clients or prospective clients, on a fully disclosed basis, to the investment advisory services of Russell Investments Implementation Services, LLC ("Russell"), and receive referral fees from Russell for such referrals. This relationship is intended to enable Russell to manage large institutional relationships that MCWS may not be equipped to manage entirely on its own. A conflict of interest exists to the extent that MCWS refers its clients or prospective clients to Russell's investment advisory services where MCWS receives compensation in relation to such referrals. MCWS seeks to ensure that any such referrals are made on a fully disclosed basis and only when aligned with its clients' or prospective clients' best interests.

## Item 11. Code of Ethics

MCWS and persons associated with MCWS (“Associated Persons”) are permitted to buy or sell securities that it also recommends to clients consistent with MCWS’s policies and procedures.

MCWS has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws (“Code of Ethics”). In accordance with Section 204A of the Investment Advisers Act of 1940 (the “Advisers Act”), its Code of Ethics contains written policies reasonably designed to prevent the unlawful use of material non-public information by MCWS or any of its associated persons. The Code of Ethics also requires that certain of MCWS’s personnel (called “Access Persons”) report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in MCWS’s Code of Ethics, none of MCWS’s Access Persons may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the Access Person) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of MCWS’s clients.

When MCWS is purchasing or considering for purchase any security on behalf of a client, no Access Person may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when MCWS is selling or considering the sale of any security on behalf of a client, no Access Person may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers’ acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact MCWS to request a copy of its Code of Ethics.

## Item 12. Brokerage Practices

As discussed above, in Item 5, MCWS generally recommends that clients utilize the brokerage and clearing services of Fidelity, CS&Co and/or TD Ameritrade.

Factors which MCWS considers in recommending Fidelity, CS&Co, TD Ameritrade or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. Fidelity, CS&Co and TD Ameritrade enable MCWS to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by Fidelity, CS&Co and TD Ameritrade may be higher or lower than those charged by other Financial Institutions.

The commissions paid by MCWS's clients comply with MCWS's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified Financial Institution might charge to effect the same transaction where MCWS determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a Financial Institution's services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. MCWS seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Transactions may be cleared through other Financial Institutions with whom MCWS and the Financial Institutions have entered into agreements for prime brokerage clearing services. MCWS periodically and systematically reviews its policies and procedures regarding its recommendation of Financial Institutions in light of its duty to obtain best execution.

The client may direct MCWS in writing to use a particular Financial Institution to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that Financial Institution, and MCWS will not seek better execution services or prices from other Financial Institutions or be able to "batch" client transactions for execution through other Financial Institutions with orders for other accounts managed by MCWS (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, MCWS may decline a client's request to direct brokerage if, in MCWS's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Transactions for each client generally will be effected independently, unless MCWS decides to purchase or sell the same securities for several clients at approximately the same time. MCWS may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among MCWS's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently.



Under this procedure, transactions will generally be averaged as to price and allocated among MCWS's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that MCWS determines to aggregate client orders for the purchase or sale of securities, including securities in which MCWS's Supervised Persons may invest, MCWS shall generally do so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. MCWS shall not receive any additional compensation or remuneration as a result of the aggregation. In the event that MCWS determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, MCWS may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist MCWS in its investment decision-making process. Such research generally will be used to service all of MCWS's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because MCWS does not have to produce or pay for the products or services.

#### **Software and Support Provided by Financial Institutions**

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MCWS receives from Fidelity, BOKF, CS&Co, and TD Ameritrade, without cost to MCWS, computer software and related systems support, which allow MCWS to better monitor client accounts maintained at Fidelity, BOKF, CS&Co, and TD Ameritrade. MCWS receives the software and related support without cost because MCWS renders investment management services to clients that maintain assets at Fidelity, BOKF, CS&Co, and TD Ameritrade. The software and support is not provided in connection with securities transactions of clients (i.e. not "soft dollars"). The software and related systems support may benefit MCWS, but not its clients directly. In fulfilling its duties to its clients, MCWS endeavors at all times to put the interests of its clients first. Clients should be aware, however, that MCWS's receipt of economic

benefits from a broker-dealer creates a conflict of interest since these benefits may influence MCWS's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

Additionally, MCWS receives the following benefits from Fidelity, BOKF, CS&Co, and TD Ameritrade through their respective institutional investment advisor groups: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services registered investment advisor participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

MCWS also receives the following benefits from BOKF: the ability to market BOKF's trust services to MCWS's clients, access to trust accounting services; and access to investment management and performance reporting technology.

### **Schwab Institutional Intelligent Portfolios**

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In addition to MCWS's investment management and other services, the Program includes the brokerage services of CS&Co. While clients are required to use CS&Co as custodian/broker to enroll in the Program, the client decides whether to do so and opens an account with CS&Co by entering into an account agreement directly with CS&Co. If the client does not wish to place his or her assets with CS&Co, then MCWS cannot manage the client's account through the Program. As described in the Program Disclosure Brochure, SWIA may aggregate purchase and sale orders for ETFs across accounts enrolled in the Program, including both accounts for MCWS's clients and accounts for clients of other independent investment advisory firms using the Program.

With respect to the Program, as described above under Item 4, MCWS does not pay SWIA fees for its services in connection with the Program so long as MCWS maintains \$100 Million in client assets in accounts at CS&Co that are not enrolled in the Program. This is a conflict of interest because the Firm may have an incentive to recommend that clients maintain their accounts with CS&Co based on the Firm's interest in receiving CS&Co's services that benefit its business rather than based on the client's interest in receiving the best value in custody services and the most favorable execution of transactions.

Additional conflicts of interest relate to the selection of ETFs and the cash allocation within the Program:

- Certain of the ETFs in the Program may not be the lowest cost equivalent options available to the clients outside the Program. One reason the Program is offered is because it is a way to attract and retain certain clients who may otherwise not be good candidates for the Firm's investment management services outside of the Program due to the size and characteristics of the investable assets. Schwab receives other revenues for its management of Schwab ETFs within the Program, and also receives revenues from third-party ETFs within the program, as further described in the Program Disclosure Brochure. There is a conflict of interest because the Firm

may have an incentive to recommend the Program to its clients in order to receive the benefits that Schwab provides to the Firm.

- Schwab's use of a cash allocation within the Program is a source of revenue for Schwab because of the spread it receives between the interest it pays on such deposits and the amount it earns from investing the deposits, less the cost of the deposit insurance it pays. Outside of the Program, clients may be able to invest in a substantially similar portfolio of ETFs without the requirement of maintaining a cash allocation. There is a conflict of interest because the Firm may have an incentive to recommend the Program to its clients in order to receive the benefits that Schwab provides to the Firm.

Despite the conflicts discussed above, MCWS believes that its selection of CS&Co as custodian and broker, as well as the recommendation to use the Program, is in the best interest of its clients. MCWS has adopted policies and procedures designed to ensure that its use of CS&Co's services, and its recommendations of the Program, are appropriate for each of its clients.

## Item 13. Review of Accounts

### Account Reviews

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For those clients to whom MCWS provides investment management services (including through wealth management or other services that include investment management services), MCWS monitors portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom MCWS provides financial planning and/or consulting services, reviews are conducted on an “as needed” basis. Such reviews are conducted by one of MCWS’s investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with MCWS and to keep MCWS informed of any changes thereto. MCWS shall contact ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client’s financial situation and/or investment objectives.

### General Reports and Account Statements

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Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom MCWS provides investment advisory services will also receive a report from MCWS that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance on a quarterly basis as clients may reasonably request from time-to-time. Clients should compare the account statements they receive from their custodian with those they receive from MCWS.

### Financial Planning and Consulting Reports

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Those clients to whom MCWS provides financial planning and/or consulting services may receive reports from MCWS summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by MCWS.

## **Item 14. Client Referrals and Other Compensation**

### **Client Referrals**

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The Firm does not currently provide compensation to any third-party solicitors for client referrals.

## Item 15. Custody

MCWS is deemed to have custody over a client's assets when it is authorized to directly debit a client's account for payment of the Firm's management fee. In accordance with applicable custody rules, the Financial Institutions recommended by MCWS have agreed to send statements to clients, not less than quarterly, indicating all amounts paid to MCWS and/or the Independent Managers engaged to manage their accounts.

As discussed in Item 13, MCWS and/or a third party vendor may also send periodic reports to clients. Clients are advised to carefully review the statements and confirmations sent directly by the Financial Institutions and to compare them with any reports received from MCWS or an outside service provider.

### **Surprise Independent Examination**

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As MCWS is deemed to have custody over clients' cash, bank accounts or securities (for reasons other than those discussed above), the Firm is required to engage an independent accounting Firm to perform a surprise annual examination of those assets and accounts over which it maintains custody. Any related opinions issued by an independent accounting Firm are filed with the SEC and are publicly available on the SEC's Investment Adviser Public Disclosure website. MCWS does not have direct access to client funds as they are maintained with an independent qualified custodian.

## Item 16. Investment Discretion

MCWS is given the authority to exercise discretion on behalf of clients. MCWS is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. MCWS is given this authority through a power-of-attorney included in the agreement between MCWS and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). MCWS takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made;
- The Independent Managers to be hired or fired; and
- The Financial Institutions to be utilized.

## Item 17. Voting Client Securities

MCWS may vote client securities (proxies) on behalf of its clients. When MCWS accepts such responsibility, it will only cast proxy votes in a manner consistent with the best interest of its clients. Absent special circumstances, which are fully- described in MCWS's Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in MCWS's Proxy Voting Policies and Procedures, as they may be amended from time-to-time. Clients may contact MCWS to request information about how MCWS voted proxies for that client's securities or to get a copy of MCWS's Proxy Voting Policies and Procedures. A brief summary of MCWS's Proxy Voting Policies and Procedures is as follows:

- MCWS has formed a Proxy Voting Committee that will be responsible for monitoring corporate actions, making voting decisions in the best interest of clients, and ensuring that proxies are submitted in a timely manner.
- The Proxy Voting Committee will generally vote proxies according to MCWS's then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including: composition of the board of directors; approval of independent auditors; management and director compensation; anti-takeover mechanisms and related issues; changes to capital structure; corporate and social policy issues; and issues involving mutual funds.
- Although the Proxy Voting Guidelines are followed as a general policy, certain issues are considered on a case-by-case basis based on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, MCWS devotes an appropriate amount of time and resources to monitor these changes.
- Clients cannot direct MCWS's vote on a particular solicitation but can revoke MCWS's authority to vote proxies.

In situations where there may be a conflict of interest in the voting of proxies due to business or personal relationships that MCWS maintains with persons having an interest in the outcome of certain votes, MCWS takes appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

As described in the Program Disclosure Brochure, clients enrolled in the Program designate SWIA to vote proxies for the ETFs held in their accounts. We have directed SWIA to process proxy votes and corporate actions through and in accordance with the policies and recommendations of a third party proxy voting service provider retained by SWIA for this purpose. Additional information about this arrangement is available in the Program Disclosure Brochure. Clients who do not wish to designate SWIA to vote proxies may designate MCWS to vote proxies or may retain the ability to vote proxies themselves by signing a special CS&Co form available from us.



## Item 18. Financial Information

MCWS is not required to disclose any financial information pursuant to this Item due to the following:

- The Firm does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance;
- The Firm does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- The Firm has not been the subject of a bankruptcy petition at any time during the past ten years.



Prepared by:

