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## CLIENT BROCHURE

Date of Brochure: March 27, 2015

This Brochure provides information about the qualifications and business practices of **Sage Advisory Services, Ltd. Co.** If you have questions about the contents of this Brochure, please contact us at (512) 327-5530.

The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

Additional information about Sage is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with, registered, and required to be registered as investment adviser representatives of Sage.

Sage is a registered investment adviser. The registration of an investment adviser does not imply any level of skill or training. The oral and written communications made to you by Sage, including the information contained in this Brochure, should provide you with information to determine whether to hire or retain Sage as your adviser.

Please be aware during your review of our Brochure when we use the words "Sage", "we" and "our" we are referring to **Sage Advisory Services, Ltd. Co.** When we use the words "you", "your" and "client" we are referring to you as our client or our prospective client. We use the term "Associated Person" when referring to our officers, employees, and all individuals providing investment advice on behalf of Sage.

## ITEM 2 – MATERIAL CHANGES

Sage Advisory Services, Ltd. Co. has made no material changes to our Brochure since the last annual update on March 25, 2014.

### Item 4 - Advisory Business

The discussion of Sage's advisory business was updated to disclose that Sage is offering investment management services to employers sponsoring defined contribution plans with participant-directed investments.

### Item 10 – Other Financial Industry Activities and Affiliations

This item was updated to disclose that when Sage is serving as the investment manager for a defined contribution plan's investment menu, the plan sponsor may also select bank collective investment funds that are sub-advised by Sage as additional investment options under the plan

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## ITEM 4 – ADVISORY BUSINESS

SAGE ADVISORY SERVICES, LTD. CO. is a Securities and Exchange Commission (SEC) registered investment adviser located in Austin, Texas. Sage was founded in 1996 and is organized as a Texas Limited Liability Company.

Sage specializes in domestic and international fixed income, balanced and equity portfolio management for individual and institutional clients. Sage offers a common sense approach toward investing by utilizing strong risk-control disciplines and a process that is repeatable.

Sage's belief is a conscientiously monitored investment management program designed specifically for each client can satisfy clients' constantly changing investment needs. Sage seeks to add value through its investment management process applied based upon each client's investment risk constraints.

Sage's investment management process combines fundamental economic analysis with quantitative security and yield curve valuation techniques to produce a comprehensive core management style.

### PRINCIPAL OWNERS

Sage is independently operated and owned entirely by employees. The principal owners are:

- Robert G. Smith III, its President and Chief Investment Officer; and
- Mark C. MacQueen, its Executive Vice President.

### EDUCATION AND EXPERIENCE

Sage's Associated Persons are expected to have education and business backgrounds that enable them to perform their respective responsibilities effectively. In assigning responsibilities, Sage considers academic background (including studies in college and graduate schools, as well as degrees earned), industry training, licenses and certifications.

Work experience in a related field, such as investments, commodities, insurance, banking or accounting, is also considered.

No formal, specific standards have been set, but appropriate education and experience are required. See ADV Form Part 2B for additional information.

### ASSETS UNDER MANAGEMENT & ASSETS UNDER ADVISEMENT (AUM/AUA)

As of December 31, 2014 Sage manages \$10,600,461,000 in total client assets of which, \$8,952,270,000 is managed on a discretionary basis, \$1,368,430,000 is managed on a model provision basis, and \$279,761,000 is managed on a non-discretionary basis.

### OVERVIEW OF ADVISORY SERVICES

Sage offers investment management services to individuals and high net worth individuals as well as institutional clients, including those clients managed through wrap programs, corporate pension and profit-sharing plans, Taft-Hartley plans, insurance companies, charitable institutions, foundations, endowments, municipalities, registered mutual funds, exchange traded funds, unitized funds, collective investment funds, trust programs, and other U.S. and international institutions.

While Sage generally makes investment decisions on behalf of clients, Sage does permit clients to impose restrictions on investing certain securities or other limitations as mutually agreed upon.

Sage also offers advisory services to clients seeking liability directed investment solutions and insurance company specific services.

All clients are subject to a written agreement which describes the nature of our services, limitations, objectives, fees and other matters.

### INVESTMENT MANAGEMENT

Sage offers a common sense and client objective-driven approach toward investing with strong risk-control disciplines utilizing a repeatable process. Sage distinguishes itself in the following areas:

- Investment Management - Sage seeks to manage each client's portfolio separately and individually to assist them in obtaining their safety, liquidity, income, tax sensitivity, total return and risk expectations.

- Disciplined Process - Sage adheres to a process that focuses on each client's financial objectives within a mutually understood risk tolerance.
- Client Education - Sage educates clients on market trends, economic forces and investment fundamentals to foster a better understanding of investment decisions.
- Investment Reporting - Sage provides clients with convenient password protected access to their account information anytime, from anywhere via Sage's website.

Sage offers certain investment management services to employers sponsoring defined contribution retirement plans with participant-directed investments. As the plan's fiduciary and investment manager, Sage selects and monitors the exchange traded funds that are offered as investment options to participants under the plan's investment menu.

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#### INVESTMENT PROCESS AND COMMITTEE

Investment decisions are made by Sage's Investment Committee which is chaired by the Chief Investment Officer.

Decisions with regard to the broad market outlook, investment strategy and client portfolio positioning are determined by the Investment Committee, and recorded in the minutes of the semi-monthly meetings.

The Investment Committee's investment decision process is supplemented regularly with economic and quantitative market analysis provided by Sage's internal research analysts and its external economic and analytic consultants.

After the Investment Committee decides on the duration target, the sector allocation and the security characteristics desired, the portfolio managers, operating on a team basis, implement the decisions reached by the Investment Committee.

Each portfolio is managed separately and tailored to assist respective clients in meeting their safety, liquidity and total return expectations.

It is Sage's belief that only an individually designed and monitored investment management program can satisfy the constantly changing investment needs of each client.

Please see Item 8 for additional information regarding our investment strategies and please see Item 16 for

more information regarding investment discretion and client investment restrictions.

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#### INVESTMENT STRATEGIES

Sage offers the following actively managed investment strategies:

- Taxable Fixed Income - Sage's client's objectives range from cash management to total return and high total income. Sage also delivers investment strategies in short, intermediate and market duration profiles. Investment instruments include, but are not limited to, U.S. Government debt, U.S. Corporate debt, U.S. Municipal debt and Securitized Assets.
- Municipal Fixed Income - Sage's client's objectives range from cash management to after-tax total return and high after-tax total income. Sage offers investment strategies in short, intermediate and market duration. Investment instruments include, but are not limited to, U.S. Treasury debt, tax-exempt municipal general obligation debt, and tax-exempt municipal revenue debt.
- Actively Managed Exchange Traded Funds (ETF) - Sage's client's objectives range from long-term total return to low-volatility income generation. Sage offers strategies in multi asset income, core plus equity, core plus fixed income and balanced accounts. Investment instruments include, but are not limited to, equity, fixed income and alternative ETFs. These strategies include Target Date/Lifecycle Fund clients and certain proprietary accounts.

Please see Item 8 for additional information regarding our investment strategies.

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#### WRAP ACCOUNTS

Sage manages wrap accounts using the same investment process described above.

The wrap fee program sponsor pays Sage a portion of the wrap fee they receive for investment management services.

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#### MODEL PROVISION EXCHANGE TRADED FUNDS (ETF)

Sage offers model provision ETF allocation services to clients whereby Sage provides the client with an updated model as Sage makes changes to the model. The investment and research process for the Sage Tactical

ETF strategies follows the same investment strategy as Sage's Actively Managed ETF strategies described above.

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#### SAGE COLLECTIVE INVESTMENT FUNDS (ETF)

Collective Investment Funds (CIFs) are institutional investment vehicles that are solely available for ERISA retirement plans. Like mutual funds, CIFs allow investors efficient access to an investment strategy, offer daily valuation and are easily traded through the National Securities Clearing Corporation (NSCC). Relative to mutual funds, CIFs offer a transparent institutional fee structure and more flexible record keeper pass-through arrangements.

The Sage Funds are collective investment funds ("CIFs") created by the Hand Composite Employee Benefit Trust and sponsored by Hand Benefits & Trust Company, a BPAS company, that invests in the strategies of Sage Advisory Services, Ltd. Co. which serves as the subadvisor to the CIFs.

These CIFs are available for investment by eligible qualified retirement plan trusts only and has been created specifically for employer-sponsored retirement plan investors. All of Sage's actively managed ETF strategies are available through these CIFs.

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#### LIABILITY DIRECTED INVESTMENT SOLUTIONS

In addition to traditional investment management services, Sage offers a comprehensive and innovative combination of analytic, investing and reporting services which focus on the key concerns in building an effective Liability Directed Investment management strategy.

Specifically, Sage offers two categories of services:

- Asset/Liability Analysis, and
- Liability Driven Investing.

Sage provides these services independently or conjunctively for its clients. For example, Sage has clients for whom it solely performs Asset/Liability Analysis, clients for whom it solely provides Liability Driven Investing, and finally, clients for whom it performs Asset/Liability Analysis and provides Liability Driven Investing.

Asset/Liability Analysis is the first step in Asset/Liability Management and involves assessing a client's liability structure and existing asset solution

given the current applicable regulatory environment by employing the following analyses:

- Term structure assessment
- Dynamic cash flow modeling
- Interest rate & inflation risk sensitivity analysis
- Customized liability benchmark creation
- Gap analysis & risk budget creation
- Deterministic and stochastic modeling of asset returns
- Accounting and statutory projections using actuarial forecasting software (optional)

Liability Driven Investing is the second step in Asset/Liability Management and involves developing and implementing a particular investment management solution given the client's liability structure, funded status and goals and may include:

- Liability targeted investments
- Long duration portfolio management
- Excess alpha and low correlation investment strategies
- A broad range of investments such as futures, swaps and other derivative instruments, if warranted

If a client retains Sage to perform Asset/Liability Analysis, Liability Driven Investing or both, Sage provides reporting and administration services as follows:

- Daily online investment valuation and activity reports
- Year-round investment compliance and oversight reports
- Customized periodic performance evaluations
- Monthly liability benchmark updates
- Assessment & negotiation of derivative agreements, if required

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#### INSURANCE COMPANY SERVICES

Sage offers a comprehensive and innovative combination of analytic, investing and reporting services which focus on the key concerns in building an effective management strategy for insurance organizations.

#### Insurance Liability Assessment and Analysis

- Term structure analysis
- Dynamic cash flow modeling
- Interest rate & inflation risk sensitivity analysis
- Customized liability benchmark creation
- Gap analysis & risk budget creation
- Balance sheet and income statement projections
- Tax efficiency analysis

#### Insurance Investment Management

- Liability targeted investments
- Long duration portfolio management
- Excess alpha and low correlation investment strategies
- Tax sensitive portfolio management

#### Insurance Reporting and Administration

- Daily online investment valuation and activity reports
- Year-round investment compliance and oversight reports
- Customized quarterly performance evaluations
- Monthly liability benchmark updates
- Best's Capital Adequacy Ratio (BCAR) calculation and forecasting
- Statutory insurance reporting, including Schedule D reporting
- Investment Accounting

### ITEM 5 – FEES AND COMPENSATION

Sage is compensated by receiving a mutually agreed upon percentage of the assets under management or by receiving a fixed fee.

#### INVESTMENT MANAGEMENT FEE CALCULATION & PAYMENT PROCEDURE

Sage manages accounts for a variety of individual and institutional clients on a discretionary and/or non-discretionary basis, subject to the investment guidelines contained in their respective client agreement.

- The amounts and specific manner in which fees are charged is negotiated and memorialized in each client's agreement with Sage.
- Sage does not deduct fees from client accounts.
- Sage invoices clients directly.
- Sage generally invoices clients in advance on a quarterly basis and will also invoice in arrears or

prorate fees for capital contributions and withdrawals.

- Accounts initiated or terminated during a calendar quarter will be charged a prorated fee.
- On the termination date of an account, any prepaid, unearned fees will be promptly refunded and earned and unpaid fees will be due and payable.
- Sage's client agreement typically requires 30 days notice for termination.

Sage uses account market values to calculate investment performance and client fees, where applicable. Sage uses pricing information provided by Interactive Data Corporation ("IDC") to value client portfolios. In instances where Sage is unable to determine a price for a security or determines a price received from IDC is not reflective of fair market value, Sage will determine a fair value for that security according to the methodology outlined in Sage's Portfolio Valuation Policy.

There are inherent conflicts of interest when Sage values client accounts, as higher security prices increase market values, thereby enhancing performance results and increasing fees. In addition, because clients pay different fees based on differing fee schedules or the size of the account, Sage has an incentive to favor those accounts where it earns the highest fees. Sage maintains investment, trade allocation and account valuation (including fair valuation) policies and procedures to address such conflicts of interest. Further, investment performance return dispersion is reviewed regularly by Portfolio Managers, the Systems and Operations Department and Compliance to reasonably ensure certain clients are not favored over other clients.

When providing investment management services to employers sponsoring defined contribution plans with participant-directed investments, Sage will either invoice clients directly or deduct fees from plan assets as expressly directed by the plan sponsor in the investment management agreement.

#### INVESTMENT MANAGEMENT FEE SCHEDULES

Sage's standard fee schedules (including those for its Model Provision ETF and wrap fee account clients) are provided below. However, in some instances, Sage will negotiate from its standard fee schedule, or waive fees, based upon the circumstances. Sage maintains investment, trade allocation and account valuation policies and procedures designed to address potential

conflicts of interest related to the fact that clients pay varying fees.

Fixed Income Strategies	ETF Strategies
<b>Cash Duration</b>  .25 of 1% to \$10 Million .20 of 1% on next \$15 Million Negotiable over \$25 Million	<b>All Cap Core Plus Equity</b> Core Plus Fixed Income Balanced Portfolios Multi Asset Income  .40 of 1% to \$10 Million .35 of 1% on next \$15 Million .25 of 1% on next \$25 Million Negotiable over \$50 Million
<b>Short Duration</b> <b>Moderate Duration</b> <b>Intermediate Duration</b>  .35 of 1% to \$10 Million .25 of 1% on next \$15 Million .20 of 1% on next \$25 Million Negotiable over \$50 Million	<b>Target Date/Life Cycle Funds</b>  .40 of 1% to \$20 Million .30 of 1% on next \$20 Million .20 of 1% on next \$20 Million Negotiable over \$60 Million
<b>Market Duration Fixed Income</b> <b>Liability Driven Investment</b> <b>(LDI) Management (6+ Years Duration)</b>  .40 of 1% to \$10 Million .35 of 1% on next \$15 Million .25 of 1% on next \$25 Million Negotiable over \$50 Million	<b>Liability Driven Investment</b> <b>(LDI) Management – ETF (8+ Years Duration)</b>  .40 of 1% to \$15 Million .Minimum fee of \$20,000
<b>Core Plus Fixed Income</b>  .50 of 1% to \$25 Million .35 of 1% on next \$25 Million .20 of 1% on next \$50 Million Negotiable over \$100 Million	<b>Cash Balance</b>  .40 of 1% to \$3 Million .35 of 1% on next \$7 Million .30 of 1% over \$10 Million Negotiable over \$25 Million

Sage's investment management fee for employers sponsoring defined contribution plans with participant-directed investments is negotiable for each particular plan client's situation and other relevant factors, including but not limited to the size of the plan, number of participants and the plan's custodial and recordkeeping arrangement.

#### FEE SCHEDULE FOR ASSET/LIABILITY ANALYSIS & ANALYTICS

Asset/Liability Study:

- Initial Asset/Liability Study Base Fee: \$15,000
- Subsequent Annual Study Fee: \$15,000
- Semi-Annual or Quarterly Update Fee: \$2,500

(Per each inter-period update other than an initial or annual report)

Fees for Asset/Liability Analysis & Analytics may be increased above the fee schedule amount based on Sage's determination of the novelty, complexity and/or time required to perform these analyses. Additionally, any requested revisions, including additional assumption testing and/or scenarios, may result in additional fees depending on the nature and extent of the revisions.

Fixed income management assignments of at least \$25 million requesting the Asset/Liability Study above will be provided the study as part of the overall investment management fee as outlined in the investment management fee schedule above.

In the event the fixed income assignment is less than \$25 million the fees for each of the services will be billed separately as outlined in the Investment Management Fee Schedule and the Fee Schedule for Asset Liability Analysis & Analytics sections above.

In some instances, Sage will negotiate from its standard fee schedule based upon the circumstances. Fees for the Asset Liability services will be billed upon completion and paid prior to sending the final report.

#### SCHEDULE D REPORTING FOR INSURANCE CLIENTS FEE SCHEDULE

The minimum fee for Schedule D services for Insurance Companies is:

- 2.5 basis points on the net asset value of the entire investment portfolio subject to an annual minimum fee of \$15,000.
- Additional fees may be charged for additional entities and services, including automated general ledger accounting and backloading data.
- In the event there is more than one investment manager for the portfolio the fee may be higher and is subject to negotiation.
- The fee will be billed quarterly in advance based on the net asset value of the portfolio on the last business day of the preceding quarter.
- If the Schedule D services are terminated (generally upon 7 days notice) before the end of a quarter, fees paid in advance will be pro-rated for the period and the excess refunded promptly to the client.



## CLIENT'S RESPONSIBILITY OF THIRD PARTY FEES

Sage's investment management fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment advisers and other third parties. Please see Item 12 for additional information about Sage's brokerage practices.

Mutual funds and exchange traded funds also charge internal management fees and other expenses which are disclosed in the fund's prospectus.

Such charges, fees and commissions are exclusive of Sage's fee. Sage does not receive any portion of these commissions, fees and expenses.

## ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Sage does not charge any performance-based management fees.

## ITEM 7 – TYPES OF CLIENTS

Sage offers investment management services to individuals and high net worth individuals as well as institutional clients, including those clients managed through wrap programs, corporate pension and profit-sharing plans, Taft-Hartley plans, insurance companies, charitable institutions, foundations, endowments, municipalities, registered mutual funds, exchange-traded funds, unitized funds, collective investment funds, trust programs, and other U.S. and international institutions.

Sage generally requires the account minimums listed below; however, account minimums are subject to negotiation.

Client Type	Minimum Account Size
Wrap Program Clients	\$100,000
Taxable Clients	\$3 million
Municipal Clients	\$1 million
Actively Managed ETF	\$1 million

Liability Driven Investing	\$10 million
Insurance Company Clients	\$10 million

Sage manages certain proprietary accounts. These accounts are traded alongside client accounts; therefore, Sage maintains investment, trade allocation and account valuation (including fair valuation) policies and procedures to address potential conflicts of interest related to these accounts.

## ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### ANALYSIS METHODS

Security analysis methods utilized by Sage include the following:

#### FUNDAMENTAL

Fundamental analysis maintains that markets may misprice a security in the short run, but that the "correct" price will eventually be reached by the market. The fundamental analysis of a business involves analyzing a business's financial statements and health, management and competitive advantages, and competitors and markets.

When applied to futures and foreign exchange, it focuses on the overall state of the economy, interest rates, production, earnings, and management.

### SOURCES OF INFORMATION

Sources of information Sage uses to analyze investment strategies include, but are not limited to, the following:

- Proprietary in-house research.
- Quantitative analytics & forecasting.
- NRSRO - Nationally Recognized Statistical Rating Organizations.
- Third party research materials & reports.
- Standard & subscribed databases.
- Financial newspapers and magazines
- Annual reports, prospectuses and Securities & Exchange Commission filings.

## INVESTMENT STRATEGY RISKS

### TAXABLE FIXED INCOME

**Principal Investment Risks.** Losing a portion or all of an investment is a risk of investing in taxable fixed income securities. The following principal risks could affect the value of a client's investment:

- *Debt Securities Risk.* Debt securities, such as notes and bonds, are subject to credit risk and interest rate risk. Credit risk is the possibility that an issuer of an instrument will be unable to make interest payments or repay principal when due. Changes in the financial strength of an issuer or changes in the credit rating of a security may affect its value. Interest rate risk is the risk that interest rates may increase, which tends to reduce the resale value of certain debt securities, including U.S. Government obligations.
- *U.S. Government Obligations Risk.* If a government-sponsored entity is unable to meet its obligations, the performance of the strategy that holds securities of the entity will be adversely impacted. U.S. Government obligations are viewed as having minimal or no credit risk but are still subject to interest rate risk.
- *Mortgage and Asset-Backed Securities Risk.* Mortgage and asset-backed securities risk includes market risk, interest rate risk, credit risk, prepayment risk (*i.e.*, homeowners whose mortgages collateralize the securities held by the Funds may be able to prepay principal due on these mortgages) as well as the risk that the structure of certain mortgage-backed securities may make their reaction to interest rates and other factors difficult to predict, making their prices very volatile.
- *Issuer Risk.* The value of a security may decline for a number of reasons, which directly relate to the issuer, such as management performance, financial leverage, and reduced demand for the issuer's goods and services.
- *Liquidity Risk.* Liquidity risk is the risk that a security may not be sold at the time desired or without adversely affecting the price.
- *High Yield Bond Risk.* While high yield bonds generally pay higher interest rates than other fixed income securities, there is a higher risk of income and principal loss.

### MUNICIPAL FIXED INCOME

**Principal Investment Risks.** Losing a portion or all of an investment is a risk of investing in municipal fixed income securities. The following principal risks could affect the value of a client's investment:

- *Municipal Securities Risk.* Municipal securities rely on the creditworthiness or revenue production of their issuers or auxiliary credit enhancement features. Municipal securities may be difficult to obtain because of limited supply, which may increase the cost of such securities and effectively reduce a portfolio's yield. Typically, less information is available about a municipal issuer than is available for other types of securities issuers.
- *Debt Securities Risk.* Debt securities, such as notes and bonds, are subject to credit risk and interest rate risk. Credit risk is the possibility that an issuer of an instrument will be unable to make interest payments or repay principal when due. Changes in the financial strength of an issuer or changes in the credit rating of a security may affect its value. Interest rate risk is the risk that interest rates may increase, which tends to reduce the resale value of certain debt securities, including U.S. Government obligations.
- *Tax Risk.* A strategy that invests in municipal securities may be more adversely impacted by changes in tax rates and policies than other strategies. Because interest income on municipal obligations is normally not subject to regular federal income taxation, the attractiveness of municipal obligations in relation to other investment alternatives is affected by changes in federal income tax rates applicable to, or the continuing tax-exempt status of, such interest income.
- *Issuer Risk.* The value of a security may decline for a number of reasons, which directly relate to the issuer, such as management performance, financial leverage, and reduced demand for the issuer's goods and services.
- *Liquidity Risk.* Liquidity risk is the risk that a security may not be sold at the time desired or without adversely affecting the price.

## LIABILITY DRIVEN INVESTING AND INSURANCE COMPANY SERVICES

- *Debt Securities Risk.* Debt securities, such as notes and bonds, are subject to credit risk and interest rate risk. Credit risk is the possibility that an issuer of an instrument will be unable to make interest payments or repay principal when due. Changes in the financial strength of an issuer or changes in the credit rating of a security may affect its value. Interest rate risk is the risk that interest rates may increase, which tends to reduce the resale value of certain debt securities, including U.S. Government obligations.
- *Futures Risk.* On occasion, Sage may recommend its Liability Driven Investing clients invest in futures to help lengthen duration. The use of futures can magnify the risk of loss in an unfavorable market. Futures may not always be successful hedges and their prices can be highly volatile. Using futures could lower the client's total return, and the potential loss can exceed a strategy's initial investment in such contracts.
- *Liability Risk.* The measurement of liabilities, whether pension fund, insurance, or non-profit, involve certain forward-looking assumptions and actuarial data. Actuarial data are affected by many factors, such as changes to fund provisions, participant population, and actuarial assumptions, and therefore are subject to change. Liability forecasts, and the current pricing of those forecasts, will be subject to change and should be monitored accordingly.
- *Issuer Risk.* The value of a security may decline for a number of reasons, which directly relate to the issuer, such as management performance, financial leverage, and reduced demand for the issuer's goods and services.
- *Liquidity Risk.* Liquidity risk is the risk that a security may not be sold at the time desired or without adversely affecting the price.

## EXCHANGE TRADED FUNDS

- *ETF Trading Risk.* This strategy invests in ETFs. ETFs are investment companies that are bought and sold on a national securities exchange. Unlike mutual funds, ETFs do not necessarily trade at the net asset values of their underlying securities, which means an ETF could potentially trade above or

below the value of the underlying portfolios.

Additionally, because ETFs trade like stocks on exchanges, they are subject to trading and commission costs unlike mutual funds. Also, both mutual funds and ETFs have management fees that are part of their costs, and the strategy will indirectly bear its proportionate share of these costs.

- *Issuer Risk.* The value of a security may decline for a number of reasons, which directly relate to the issuer, such as management performance, financial leverage, and reduced demand for the issuer's goods and services.
- *Liquidity Risk.* Liquidity risk is the risk that a security may not be sold at the time desired or without adversely affecting the price.

## OTHER INFORMATION

In addition to the strategy specific risks identified above, client accounts are subject to general market risk and Investing in securities involves risk of loss that clients should be prepared to bear. Securities purchased and held in client accounts may decline in value because of a general decline in the market. Securities markets move in cycles, with periods of rising prices followed by periods of falling prices. The value of the securities held in client accounts will tend to increase or decrease in response to these movements. Sage does not offer any products or services that guarantee rates of return on investments for any time period to any client. All clients assume the risk that investment returns may be negative or below the rates of return of other investment advisers, market indices or investment products.

## ITEM 9 – DISCIPLINARY INFORMATION

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to the evaluation of Sage or the integrity of Sage. Sage has never had disciplinary information disclosures applicable to this item.

## ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Sage provides investment management services to registered investment companies on a sub-advised basis. Sage also sub-advises certain bank collective investment funds (CIFs) that are intended to serve as investment options for defined contribution plans with participant-directed investments. When a plan sponsor client selects

Sage to serve as the investment manager for the plan's investment menu and also selects any of the CIFs to serve as additional investment options under the plan, Sage may earn compensation as the provider of investment management services and as the sub-adviser to the CIFs. However, Sage's investment management services are limited to the selection and monitoring of the exchange traded fund options for participants, and in no event would its investment management services extend to the selection or monitoring of the CIFs as investment options under the plan.] All investment management and other related services are designed to be compliant with or exempt from the prohibited transaction rules under ERISA.

## ITEM 11 – CODE OF ETHICS

Sage has adopted a Code of Ethics and Personal Trading Policy (the "Code") in compliance with Rule 204A-1. The Code expresses the policy and procedures of Sage and is intended to ensure that no one is taking advantage of his or her position, or even giving the appearance of placing his or her own interests above those of Sage's clients. Sage's personnel must act as fiduciaries, and as such must place the interests of clients before its own.

Sage's Code includes:

- standards of business conduct, including limitations on giving and receiving gifts and business entertainment, making political contributions, serving as a director or trustee for an outside organization and engaging in outside business activities;
- compliance with federal securities laws;
- personal securities reporting;
- pre-clearance of certain transactions;
- prohibitions from using nonpublic information to trade in personal or client accounts;
- reporting of code violations; and
- review and enforcement.

All Associated Persons receive and acknowledge the Code and Sage's Compliance Policy Manual. In addition, all Associated Persons are required to certify compliance with the Compliance Policy Manual, including the Code, on an annual basis.

## PERSONAL TRADING POLICY

Sage has adopted a personal trading policy outlined within its Code.

Sage's policy is based on the principle that it owes a fiduciary duty to clients to conduct personal securities transactions in a manner that does not interfere with client transactions or otherwise take unfair advantage of their relationship with clients.

Sage requires Associated Persons to pre-clear certain personal securities transactions. In addition, the Code requires Associated Persons to report certain security holdings initially upon being hired and annually thereafter. Finally, Associate Persons are required to report personal securities transactions to the Chief Compliance Officer on a quarterly basis.

Sage has certain proprietary accounts which fall under the definition of beneficial ownership due to certain Associated Persons' ownership stake in the firm. As provided for in Sage's portfolio management and trading policies, these accounts may participate in trade orders along with client accounts. This may create an incentive for Sage to put the interests of the firm ahead of clients; however, the Code requires Sage to put clients' interests first and to report personal transactions and holdings to the Chief Compliance Officer in accordance with the reporting requirements described above. These accounts are exempt from the pre-clearance requirements and personal trading restrictions described above provided the transactions are done in accordance with Sage's portfolio management and trading policies and procedures.

## COMPLIANCE WITH THE CODE OF ETHICS

Sage's Chief Compliance Officer is primarily responsible for implementing and administering the Code. Associated Persons are required to report any violations of the Code or applicable laws. Failure to comply with the Code may result in disciplinary action, up to and including termination.

Upon request, Sage will provide a complete copy of our Code at no charge.

## ITEM 12 – BROKERAGE PRACTICES

### OVERSIGHT

Sage's Brokerage Oversight Committee provides oversight of trading and brokerage policies and practices.

In addition, Sage maintains investment, trading and brokerage policies and procedures. The following is an overview of trading and brokerage practices, policies and procedures.

#### **SOFT DOLLAR ARRANGEMENTS OR OTHER BENEFITS**

Sage does not have any formal or informal soft dollar arrangements with brokers. On occasion, Sage receives unsolicited research from outside sources. This information is not used in the investment decision-making process.

#### **SELECTION OF BROKERS**

Sage utilizes traditional brokers, electronic communication networks and trading systems to execute trades on clients' behalf. Sage has established a Brokerage Oversight Committee to monitor and evaluate the quality of execution received from broker-dealers executing transactions on behalf of Sage's clients and to oversee trading practices and procedures. Sage's overriding objective in effecting portfolio transactions is to seek best execution. While the best price, giving effect to brokerage commission, if any, and other costs, is an important factor in this decision, a number of other factors may also enter into the decision. These include:

- Ability to locate liquidity;
- Inventory of fixed income securities;
- New issue supply or underwriting;
- Knowledge of and dominance in specific markets, securities and industries;
- Participation in bid/want lists;
- Quality of execution;
- Financial condition of the firm;
- Acceptable record keeping, administrative and settlement functions; and
- Reputation and integrity.

Recognizing the importance of these factors, Sage may pay commissions in excess of that which another broker or dealer might have charged for effecting the same transaction.

#### **BROKERAGE FOR CLIENT REFERRALS**

Sage does not consider a broker-dealer's promotion or sale of registered investment companies sub-advised by Sage when determining whether to select such broker-dealer to execute transactions for clients.

#### **CLIENT DIRECTED BROKERAGE**

In very limited circumstances, clients require Sage to direct transactions in their accounts to a particular broker-dealer ("directed brokers"). For clients utilizing a directed broker, the client may forgo any benefit from savings on execution costs that Sage may obtain for other clients, such as negotiating volume discounts on blocked orders. In addition, the client may not receive the same price or commission paid by other clients who utilize different brokers selected by Sage.

#### **TRADE AGGREGATION AND ALLOCATION**

##### **TAXABLE FIXED INCOME**

It is Sage's policy to trade taxable fixed income securities for client accounts based on each client's investment strategy. When practical, Sage separate client account trades will be bunched in a single order (a "block") in an effort to obtain best execution. Sage seeks to block account trades and avoid partial fill situations. If a block order is filled (full or partial fill) at several prices through multiple trades on the same day, an average price will be calculated for all trades executed by the broker for the block, and all participants in the block trade will receive the average price. Only trades executed within the block on the single day may be combined for purposes of calculating the average price. While generally infrequent, partial fills may be allocated to accounts within the strategy on a pro rata basis, subject to rounding and reasonable efforts to minimize trading costs. On occasion, in order to avoid odd lots Sage may not allocate a partial fill on a pro rata basis, rather Sage may identify a comparable bond that will be allocated to client accounts in which case the original allocation will be revised for the original bond.

##### **MUNICIPAL FIXED INCOME**

It is Sage's policy to trade tax-exempt fixed income for client accounts based on each client's investment strategy. When practical, Sage seeks to block account trades and avoid partial fill situations. If a block order is filled (full or partial fill) at several prices through multiple trades on the same day, an average price will be calculated for all trades executed by the broker for the block, and all participants in the block trade will receive the average price. Only trades executed within the block on the single day may be combined for purposes of calculating the average price. While generally infrequent, partial fills may be allocated to accounts within the strategy on a pro

rata basis, subject to rounding and reasonable efforts to minimize trading costs. On occasion, in order to avoid odd lots Sage may not allocate a partial fill on a pro rata basis, rather Sage may identify a comparable bond that will be allocated to client accounts in which case the original allocation will be revised for the original bond.

#### ACTIVELY MANAGED ETF

It is Sage's policy to make investment recommendations for actively managed ETF accounts, including Sage's proprietary accounts, together. Once a decision has been made to update the ETF investment allocation model(s), Sage rotates the order in which clients are notified of changes to the model including Sage's trading desk which then executes trades on behalf of clients. Certain actively managed ETF clients direct Sage to use a specific broker-dealer to execute trades. Sage will generally place these trades simultaneously with other client trades. Please see the Client Directed Brokerage Section for additional information.

If a block order is filled (full or partial fill) at several prices through multiple trades on the same day, an average price will be calculated for all trades executed by the broker for the block, and all participants in the block trade will receive the average price. Only trades executed within the block on the single day may be combined for purposes of calculating the average price. While generally infrequent, partial fills may be allocated to accounts within the strategy on a pro rata basis, subject to rounding and reasonable efforts to minimize trading costs.

#### DEVIATIONS FROM POLICY

Sage's policy allows for acceptable deviations from the practices described above.

#### CROSS TRADES

Sage may enter into cross transactions between client accounts when, in Sage's judgment, it is in the best interest of each client participating in the transaction.

All cross transactions will be done in accordance with our Cross Transactions Policy. In addition, the Brokerage Oversight Committee is responsible for oversight of cross transactions.

#### TRADE ERRORS

It is Sage's policy for clients to be made whole following a trade error. When Sage causes a trade error to occur in a client account that results in a loss, Sage will reimburse the client. If the trade error results in a gain, the client will keep that gain. In situations where a trade error occurs due to a third party's error, Sage will work with the third party to reasonably ensure the client is not negatively impacted by the error.

### ITEM 13 – REVIEW OF ACCOUNTS

#### ACCOUNT REVIEW

Sage regularly monitors and reviews client accounts with the objective of ensuring Sage operates in accordance with: clients' investment policy statements, investment objectives and investment restrictions; written disclosures; management objectives; and Sage's fiduciary obligation to act in the best interests of its clients. Reviews are consistently performed by the investment personnel assigned to the account and all accounts are reviewed on a regular basis. Clients are generally provided with monthly reports, while certain clients may receive additional reporting based on the nature of the services received.

#### REPORTS

Our practice is to provide monthly portfolio evaluations, quarterly performance reviews and pertinent investment commentaries. Sage provides clients with convenient password protected access to their account information anytime, from anywhere via Sage's website. Copies of all confirmations of purchases and sales are mailed by the executing broker directly to the client. Since Sage does not perform any custodial services, reports concerning such services will be forwarded directly to the client by the custodian.

### ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION

#### CLIENT REFERRALS

On occasion, Sage has entered into written solicitation agreements with third parties who refer potential clients to Sage. Such agreements will be disclosed to potential clients in accordance with Rule 206(4)-3 of the Investment Advisers Act of 1940.

The written agreement between Sage and any such solicitor requires, among other things, that the solicitor, at the time of rendering any solicitation activities for



which compensation is to be paid, must provide the client with a current copy of Part 2A of Sage's Form ADV.

In addition, a separate written disclosure document containing:

- the name of the solicitor
- Sage's name
- the nature of the relationship between the solicitor and Sage
- a statement that the solicitor shall be compensated by Sage for his solicitation services
- the terms of such compensation arrangement and
- the amount, if any, the client will be charged for the cost of obtaining his account, in addition to the advisory fee, and the differential, if any, between the level of investment advisory fees the client shall be charged by Sage because of the existence of the arrangement between the solicitor and Sage and the amount the client would be charged if there were no such agreement

## ITEM 15 – CUSTODY

Sage does not maintain custody of client assets. Sage's clients should receive quarterly statements from their broker dealer, bank or other qualified custodian that holds and maintains their investment assets.

Sage urges clients to carefully review their statements and compare the qualified custodian statement to the account statements that Sage may provides.

Our statements may vary from custodial statements based on accounting procedures, trade reporting dates, or valuation methodologies of certain securities.

## ITEM 16 – INVESTMENT DISCRETION

Sage generally provides portfolio management services on a discretionary basis. All accounts are subject to a written investment advisory agreement which describes discretionary authority, any investment limitations, investment objectives, fees and other matters.

## ITEM 17 – VOTING CLIENT SECURITIES

A client's investment advisory agreement with Sage governs the responsibility for voting proxies within client accounts. As Sage is primarily a fixed income

investment manager it is very rare for Sage to receive a proxy in which to vote. In limited situations, Sage may receive a proxy to vote as a result of a client holding fixed income corporate obligations and ETFs. When providing investment management services to employers sponsoring defined contribution plans with participant-directed investments, Sage will be responsible for voting any proxies relating to the exchange traded funds that are offered as investment options to participants under the plan, unless the plan sponsor reserves such responsibility to itself in accordance with ERISA and as provided under the investment management agreement.

When voting a particular proxy proposal, Sage takes into consideration, among other items:

- Management's assertions regarding the proxy proposal;
- Sage's determination of how the proxy proposal will impact its clients; and
- Sage's determination of whether the proxy proposal will create dilution for shareholders.

Sage will generally support management's recommendations on proxy issues related to business operations matters. Sage believes a company's management should generally have the latitude to make decisions related to the company's business operations. However, when Sage believes the company's management is acting in an inconsistent manner with its clients' best interests Sage will vote against management's recommendations. Sage will generally vote against non-salary compensation plans (such as stock compensation plans, employee stock purchase plans and long-term incentive plans) unless, in Sage's opinion, such plans are structured to not create serious dilution to shareholders and Sage will analyze all other compensation plans on a case-by-case basis. Sage will review proxy proposals regarding control matters (e.g., mergers and anti-takeover tactics) related to a company on a case-by-case basis. Sage generally opposes measures limiting the rights of shareholders. Sage generally opposes measures preventing shareholders from accepting an offer of a sale of a company.

In evaluating a proxy proposal, Sage may encounter a material conflict of interest. Sage has a duty to recognize and resolve a conflict before voting the proxy. Sage's proxy voting policies and procedures describe the actions taken when a conflict is identified.

A copy of Sage's proxy voting policies and procedures as well as a copy of our voting record is available upon request.

## ITEM 18 – FINANCIAL INFORMATION & REQUIRED DISCLOSURES

Registered investment advisers are required in this Item to provide certain financial information or disclosures about Sage's financial condition.

Sage has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

## OTHER INFORMATION

### CLASS ACTIONS AND OTHER LEGAL PROCEEDINGS

Sage does not file legal proceedings, including class actions, on behalf of clients.

### DUAL ROLES

Sage's Chief Compliance Officer is also its Chief Financial Officer which may present a conflict of interest in performing the dual roles. Sage maintains policies, procedures and controls to routinely monitor this conflict, and does not believe it results in unfair treatment of its clients.

*[End of Brochure]*