

# **SANDERS MORRIS HARRIS**

## **Managed Asset Program (MAP) Wrap Fee Program Brochure**

March 31, 2018

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This wrap fee program brochure provides information about the qualifications and business practices of Sanders Morris Harris, LLC. If you have any questions about the contents of this brochure, please contact the Compliance Department at the above telephone number. 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.

Sanders Morris Harris, LLC is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information from which you determine to hire or retain an adviser.

Additional information about Sanders Morris Harris LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Material Changes**

This section discusses any material changes to the Firm Brochure since the date of our 2017 annual update to the Brochure which was March 31, 2017, through the date of our 2018 annual update which was March 24, 2018.

In 2017, Tectonic Holdings LLC ("Tectonic") purchased 100% of Sanders Morris Harris LLC ("SMH"), its subsidiary HWG Insurance Agency, LLC, and Miller-Green Financial Services LLC ("MG") from Summer Wealth Management LLC ("Seller"). HWG Insurance Agency, LLC, is an insurance agency registered with the Texas Department of Insurance ("HWG") affiliated with SMH. MG is a registered investment adviser registered with the Securities and Exchange Commission.

As a result of the desire to streamline operations and strengthen oversight after the Tectonic Acquisition, will be the merger of MG into SMH. On March 21, 2018, the respective Board of Managers of SMH and MG authorized the officers of the two firms to undertake the actions necessary to execute a merger with SMH being the remaining entity Please refer to the Other Financial Industry Activities and Affiliations section of this document for more information on our affiliated companies.

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## **Services. Fees and Compensation**

### **Services**

The Managed Asset Program ("MAP") is a multi-platform wrap fee advisory program where services are provided by an Investment Adviser Representative ("Representative") and may include the services of third-party Portfolio Managers.

Sanders Morris Harris, LLC ("SMH") has engaged Lockwood Advisors, Inc. ("Lockwood"), an SEC-registered investment adviser, as a third-party vendor to provide managed account services and the technology infrastructure for MAP. These services, administered through the Managed Account Command technology, include portfolio tools and reporting, calculation and collection of account fees on SMH's behalf and the processing, pursuant to SMH's instructions, of deposits to and withdrawals from the account.

The client may participate in one or more of five separate platforms within MAP. For all MAP platforms, neither Lockwood nor Pershing LLC ("Pershing") assists clients in selecting SMH, Portfolio Managers, or investment objectives or in determining the suitability of any product or platform selected in MAP.

### **Elite**

The Elite platform ("Elite") is a wrap fee arrangement in which a third-party Portfolio Manager is selected by the client from the SMH Focus List to manage and invest the assets in the account on a discretionary basis. Although there is no minimum account value required to participate in Elite, minimum requirements may be established by any third-party Portfolio Manager selected by the client.

The services of the Representative within Elite include, but are not limited to, formulation of investment objectives, portfolio reviews, recommendations with respect to selection of Portfolio Managers, and various administrative services.

In the event that a Portfolio Manager terminates from the program for any reason, SMH will, subject to client approval, endeavor to assign a new Portfolio Manager for the account.

### **Elite Choice**

The Elite Choice platform ("Elite Choice") is a wrap fee arrangement where the client selects a Portfolio Manager to manage the assets in the account. There is no minimum account value required to participate in Elite Choice, but a third-party Portfolio Manager selected by the client may establish minimum requirements. Although SMH does not perform due diligence on the Portfolio Managers in the Elite Choice platform, Lockwood makes "Scorecards" available for certain Portfolio Managers. These Scorecards, available to the Representative in the Lockwood Workstation, are Lockwood's proprietary diligence and should not be construed as investment advice or recommendations by either Lockwood or SMH.

The Representative's services provided within Elite Choice include formulation of investment objectives, portfolio reviews, recommendations with respect to selection of Portfolio Managers, and various administrative services.

The Portfolio Manager selected by the client is responsible for the selection and suitability of recommendations. The Portfolio Manager will invest and reinvest the securities, cash and/or other investments held in the account in accordance with client's investment objectives and other information provided by client to SMH at account opening or in subsequent documentation.

Some Portfolio Managers may choose not to participate in MAP. If the Portfolio Manager declines to participate in the program, the client must select another adviser.

In the event that a Portfolio Manager terminates from the program for any reason, SMH will assign a new Portfolio Manager to the account.

### **Elite Trade**

The Elite Trade platform ("Elite Trade") is an advisory wrap fee account in which the Representative manages and invests the assets in the account on either a discretionary or non-discretionary basis. The services of the Representative within Elite Trade include, but are not limited to, formulation of investment objectives, creation of tailored asset allocations using the Investment Questionnaire, portfolio reviews, and various administrative services. Based on the investment objectives selected, the client may choose from equity, balanced and fixed income style investing. There is no minimum account value required to participate in Elite Trade.

In Elite Trade, transactions will generally be executed through SMH and cleared through Pershing.

### **Elite Lockwood Investment Strategies**

The Elite Lockwood Investment Strategies platform ("Elite LIS") is a discretionary multi-disciplined managed account product housed in a single portfolio. The minimum investment required to establish an Elite LIS account is \$250,000. Lockwood serves as the Portfolio Manager for all Elite LIS accounts.

The services of the Representative within Elite LIS include, but are not limited to, formulation of investment objectives, portfolio reviews, recommendations with respect to selection of investment models or strategies and various administrative services.

### **Elite Lockwood Asset Allocation Portfolios**

The Elite Lockwood Asset Allocation Portfolios platform ("Elite LAAP") is a discretionary multi-disciplined managed account product housed in a single portfolio. Portfolio construction within LAAP is limited to mutual funds and exchange-traded funds ("ETFs"). The minimum investment required to establish an Elite LAAP account is \$50,000. Lockwood serves as the Portfolio Manager for all Elite LAAP accounts.

The services of the Representative within Elite LAAP include, but are not limited to, formulation of investment objectives, portfolio reviews, recommendations with respect to selection of investment models or strategies and various administrative services.

### **Lockwood Portfolio Design Services**

Lockwood Portfolio Design Services are available at no additional cost within the Elite Choice, Elite LIS and Elite LAAP platforms. The Lockwood Portfolio Design Team provides guidance to Representatives and, by extension, their clients and prospects, on constructing a portfolio of multiple Portfolio Managers and/or managed account options available in the Lockwood platforms.

The proposals, investment solutions, portfolio construction guidance and any type of analysis or research opinions generated by Lockwood's Portfolio Design Team ("the Team") are not reviewed, approved, or endorsed by SMH. A client should assess his/her own investment needs based on his/her own financial circumstances and investment objectives.

## MAP Program Features by Platform

Portfolio Manager (PM)		Discretionary Management	Due Diligence on Money Manager	Product Types included	Portfolio Design Services	Minimum Account Value
Elite	3 <sup>rd</sup> Party selected by client from Focus list	Yes	Yes, conducted by SMH	Broad list of exchange traded securities, mutual funds & options	No	Varies by PM selected
Elite Choice	3 <sup>rd</sup> Party selected by client	Yes	No, but Lockwood research is available on some PMs	Broad list of exchange traded securities, mutual funds & options	Yes	Varies by PM selected
Elite Trade	Representative	Client election	No	Broad list of exchange traded securities, mutual funds & options	No	None
Elite LIS	Lockwood	Yes	Yes, conducted by SMH	Mutual Funds, ETFs & stocks	Yes	\$250,000
Elite LAAP	Lockwood	Yes	Yes, conducted by SMH	Mutual funds & ETFs only	Yes	\$50,000

## Fees

The Total Program Fee for MAP is payable quarterly in advance and is calculated based on the market value of the securities held in the account on the last day of the calendar quarter. The Total Program Fee compensates SMH, the Representative and Lockwood for their services. Complete information regarding these services is set forth in the MAP Enrollment Document Agreement.

The portion of the Total Program Fee payable to SMH and the Representative is negotiable; however, the Lockwood portion of the fee is non-negotiable. This platform fee ranges from .20% to .75% per year depending on the platform chosen and total assets. The Total Program Fee cannot be less than the Lockwood platform fee as disclosed in the MAP Agreement.

All fees are deducted from the account by Pershing and are noted on account statements sent to the client.

The initial Total Program Fee is due in full on the effective date of the advisory agreement. The effective date is defined as the date when the account is accepted by SMH, and the fee is based on the account value on that date. The fee calculation is prorated if the account has been added to the billing system at any time other than the beginning of a billing cycle. Subsequent quarterly fees are determined on the first day of each calendar quarter based on the total value of the account as of the close of business on the last business day of the previous quarter is due the following day.

If the account does not maintain sufficient cash or money market balances to cover the Total Program Fee, client may deposit additional funds by the due date. If no deposit is made, SMH, the Representative or the Portfolio Manager may liquidate securities in the account in amounts sufficient to cover such fees. Such liquidation may cause client to incur taxes and other costs. For each addition to or withdrawal from an account of \$25,000 or more in Elite or Elite Choice or \$10,000 or more in all other MAP platforms, the fee is adjusted in the next billing period.

The Total Program Fee schedule for Elite, Elite Choice, Elite LIS and Elite LAAP is as follows:

<u>Total Assets</u>	<u>Maximum Total Program Fee as a % of Asset Value</u>
First \$500,000	3.00%
Next \$500,000	2.25%
Next \$1,000,000	1.90%
Next \$2,500,000	1.70%
Over \$5,000,000	1.50%

The Total Program Fee schedule for Elite Trade is as follows:

<u>Total Assets</u>	<u>Maximum Total Program Fee as a % of Asset Value</u>
First \$500,000	2.50%
Next \$500,000	2.25%
Next \$1,000,000	2.00%
Over \$2,000,000	1.50%

Generally, Portfolio Manager fees (if applicable) are not included in the Total Program Fee for MAP. In the Elite LIS and Elite LAAP platforms where Lockwood serves as the Portfolio Manager, the Lockwood fees are included in the Total Program Fee. The fee schedules for the Lockwood portion of the Total Program Fee are detailed below.

Lockwood's fee schedule for LIS (part of the above Total Program Fee) is as follows:

<u>Total Assets</u>	<u>Lockwood's LIS fee as a % of Asset Value</u>
First \$500,000	0.75%
Next \$500,000	0.55%
Next \$4,000,000	0.40%
Next \$5,000,000	0.35%
Over \$10,000,000	0.30%

Lockwood's fee schedule for LAAP (part of the above Total Program Fee) is as follows:

<u>Total Assets</u>	<u>Lockwood's LAAP fee as a % of Asset Value</u>
First \$500,000	0.40%
Next \$500,000	0.35%
Next \$4,000,000	0.30%
Next \$5,000,000	0.25%
Over \$10,000,000	0.20%



## **Payment Method**

Within a MAP account, fees are deducted from the account by SMH and are noted on account statements sent to the client by the custodian. If the account does not maintain sufficient cash or money market balances to cover the Total Program Fee, the client may deposit additional funds by the due date. If no deposit is made, SMH, the Representative or the Portfolio Manager may liquidate securities in the account in amounts sufficient to cover such fees. Any liquidation may cause the client to incur taxes and other costs. For each addition to or withdrawal from an account of \$25,000 or more in Elite or Elite Choice or \$10,000 or more in all other MAP platforms, the fee will be adjusted in the next billing period.

## **Changes to Fees**

Portfolio Managers, Lockwood, or SMH may change their respective fees at any time by giving thirty days prior written notice to the client. Following the 30-day notice period, the new fee schedule will become effective unless the client terminates the MAP Agreement. Any changes to the fees payable to the Representative require written authorization from the client.

## **Other Fees and Compensation**

Except for Elite LIS and Elite LAAP, the Total Program Fee for MAP does not include any fees charged by the third-party Portfolio Manager selected by the client, if any. The Portfolio Manager Fee varies per Manager selected by the client. For specific information regarding the fees charged by the Portfolio Manager, the client should refer to the Portfolio Manager's Form ADV. The Portfolio Manager Fee, if any, is reflected as a separate line item on the client account statement.

The Total Program Fees also do not include certain charges associated with securities transactions that may be imposed by regulatory authorities or by broker-dealers other than SMH, including commissions charged by broker-dealers other than SMH, dealer markups or markdowns in principal transactions by or agency transactions with broker-dealers other than SMH, American Depositary Receipts (ADRs) agency processing fees, odd-lot differentials, SEC and exchange fees and transfer taxes, and any other charges imposed by law.

In addition to the Total Program Fees described above, each mutual fund or exchange traded fund in which the client may invest also bears its own fees, including but not limited to short-term redemption fees, and expenses. Complete details of fees can be found in the applicable mutual fund or exchange traded fund prospectus. Other fees, such as SEC fees, Individual Retirement Account custodial fees or other taxes as required by law, may be incurred.

Certain mutual funds may be subject to deferred sales charges. Neither SMH nor the Representative recommends the transfer of such funds into MAP accounts. Should the client choose to transfer such funds into the account, the client may incur deferred sales charges upon the redemption of the shares.

Clients may invest in certain mutual funds that make payments to broker-dealers (such as SMH) pursuant to a 12b-1 distribution plan or pursuant to another arrangement as compensation for distribution or administrative services and may be paid out of the fund's assets. For all ERISA accounts, SMH will credit 12b-1 fees back to the account. In non-ERISA MAP accounts, SMH generally retains 12b-1 fees.

However, upon the Representative's request, mutual fund 12b-1 fees may be credited back to non-ERISA MAP accounts.

The cost of the services provided through MAP may be than if each service was purchased separately. For example, the cost of services provided separately may be less for accounts with infrequent trading activity. Conversely, the cost of services provided separately may be more for an account with more frequent trading activity. Similarly, Representative compensation for MAP may be more than what the Representative would receive if the client participated in other available programs or paid separately for advice, brokerage, and other services and, therefore, the Representative may have a financial incentive to recommend MAP over other programs and services.

Please refer to the Other Financial Industry Activities and Affiliations section below, the subsection Broker Dealers" Sanders Morris Harris, LLC, for important disclosure as the receipt of certain fees and commissions by the Representative and the conflicts resulting therefrom.

SMH sponsors wrap fee programs other than MAP. The complete details of the other programs can be in the wrap fee program brochure applicable to each program. To obtain a copy of the wrap fee program brochure for another SMH-sponsored program, please contact your Representative.

## **Termination**

In wrap fee programs sponsored by SMH, either the client or SMH may terminate an advisory agreement upon a thirty-day written notice to the other. For programs not sponsored by SMH, the standard is generally the same. Specific termination parameters can be found in the advisory agreement and/or the Wrap Fee Program Brochure for the applicable program.

## **Account Requirements and Types of Clients**

MAP is generally offered to individuals who have a need for fee-based services or could benefit from fee-based pricing over that of a traditional commission-based brokerage arrangement. There is no account minimum to participate in Elite, Elite Choice, or Elite Trade; however, minimum requirements may be established by any third-party Portfolio Manager selected by the client. The account minimums for Elite LIS and Elite LAAP are \$250,000 and \$50,000, respectively. SMH primarily provides advisory services to individuals, high net worth individuals, pooled investments, trusts, estates, and corporations and other business entities.

## **Portfolio Manager Selection and Evaluation**

Using the five platforms available in MAP, the client has the option to select a Portfolio Manager on which SMH has performed due diligence, select a Portfolio Manager that has not been reviewed by SMH, or allow the Representative to manage the Portfolio on a discretionary or non-discretionary basis. SMH does not review Portfolio Manager performance information to determine or verify its accuracy or its compliance with presentation standards. SMH assumes no responsibility for the selection of the Portfolio Manager or the suitability of the recommendations made by Portfolio Manager.

## **Elite**

As discussed above, the client selects a third-party Portfolio Manager from the SMH Focus List to manage and invest the assets in the Elite account on a discretionary basis. Prior to selecting Portfolio Committee. If acceptable to the committee, the Portfolio Manager may then be added to the SMH Focus List by entering into a sub-advisory agreement with SMH through Lockwood. The Portfolio Managers participating in the

Elite Platform are periodically reviewed and evaluated by SMH. Subsequent due diligence information is gathered from each Portfolio Manager and evaluated on a quarterly basis. A portion of the Total Program Fee compensates SMH for these services.

## **Elite Choice**

Within the Elite Choice platform, the client selects a Portfolio Manager to manage the assets in the account. Although SMH does not perform due diligence on the Portfolio Managers in the Elite Choice platform, Lockwood makes Scorecards available for certain Portfolio Managers. These Scorecards, available to the Representative in the Lockwood Workstation, are Lockwood's proprietary research and should not be construed as investment advice or recommendations by either Lockwood or SMH.

## **Elite Trade**

In Elite Trade accounts, the Representative manages and invests the assets in the account on either a discretionary or non-discretionary basis. Based on the investment objectives selected, the client may choose from equity, balanced and fixed income style investing. There is no minimum account value required to participate in Elite Trade.

Should the client elect a discretionary arrangement, the Representative will have trading authorization with respect to the account. As such, the Representative in his or her sole discretion and at the client's risk, can purchase, sell, exchange, convert, and otherwise trade the securities and other permitted investments in the account.

If the client elects a non-discretionary arrangement with the Representative, the client will be solely responsible for the selection of securities and other investments to manage the account, as well as approving or rejecting any asset allocation proposal.

## **Elite LIS**

Lockwood serves as the Portfolio Manager for accounts on the Elite Lockwood Investment Strategies platform ("Elite LIS"). Prior to selecting Lockwood as Portfolio Manager, SMH conducted a due diligence review. To be considered as a Portfolio Manager, Lockwood is required by SMH to have a Global Investment Performance Standards (GIPS) compliant track record of at least three years. Additional information regarding personnel, compliance, investment strategy and methodology, research, trading, fees and other data was then collected in a due diligence questionnaire completed by Lockwood. The questionnaire responses were then evaluated and scored by SMH Due Diligence Committee. After being accepted, Lockwood entered into sub-advisory agreement with SMH. Lockwood is periodically reviewed and evaluated by SMH.

Within the Elite LIS platform, the Client may select an investment model from among five core models or strategies, which include allocations to traditional asset classes, and four alternative models or strategies, which include exposure to non-traditional asset classes. Because of the underlying allocations into varying asset classes, the risk/reward potential and inherent volatility vary among the models.

The five traditional strategies, ranging from conservative to aggressive, are: Model I- Current Income; Model II - Growth & Income; Model III - Conservative Growth; Model IV - Moderate Growth; and Model V - Growth.

The four alternative strategies, ranging from conservative to aggressive, are: Model II - Growth & Income; Model III - Conservative Growth; Model IV - Moderate Growth; and Model V - Growth. {Model I intentionally excluded.}

As Portfolio Manager, Lockwood determines the asset allocation of the available investment models, and selects Sub-Managers and specific investment vehicles for each investment style based on its proprietary modeling strategies, as well as its macroeconomic outlook and investment and research disciplines. Tax consequences taken into consideration in the portfolio management process of Elite LIS. For complete details regarding the investment philosophy and methodology used by Lockwood for the traditional and alternative models, clients should refer to Lockwood's Form ADV and/or other disclosure documentation made available by Lockwood.

## **Elite LAAP**

Lockwood serves as the Portfolio Manager for all Elite Lockwood Asset Allocation Portfolios ("Elite LAAP") accounts. Prior to selecting Lockwood as Portfolio Manager, SMH conducted a due diligence review. In order to be considered as a Portfolio Manager, Lockwood is required by SMH to have a Global Investment Performance Standards (GIPS) compliant track record of at least three years. Additional information regarding personnel, compliance, investment strategy and methodology, research, trading, fees and other data was then collected in a due diligence questionnaire completed by the Lockwood. The questionnaire responses were then evaluated and scored by SMH Due Diligence Committee. After being accepted, Lockwood entered into sub-advisory agreement with SMH. Lockwood is periodically reviewed and evaluated by SMH.

Within the Elite LAAP platform, the Client may select an asset allocation model from among five models or strategies. These models invest in mutual funds and exchange-traded funds exclusively. As a result of the underlying allocations into varying asset classes, the risk/reward potential and inherent volatility vary among the models.

The five asset allocation models, ranging from conservative to aggressive, are: Model I - Current Income; Model II - Growth & Income; Model III - Conservative Growth; Model IV - Moderate Growth; and Model V - Growth.

As Portfolio Manager, Lockwood determines the asset allocation of the available investment models and specific investment vehicles for each investment style based on its proprietary modeling strategies, as well as its macroeconomic outlook and investment and research disciplines. Tax consequences are not taken into consideration during the portfolio management process of Elite LAAP. For complete details regarding the investment philosophy and methodology used by Lockwood for the traditional and alternative models, clients should refer to Lockwood's Form ADV and/or other disclosure documentation made available by Lockwood.

## **Performance-Based Fees and Side-By-Side Management**

SMH does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client). SMH does not engage in side-by-side management.

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

SMH and its Representatives use a wide variety of methods, including charting, fundamental analysis and technical analysis to determine investment strategies for clients. The primary sources of information used to conduct these types of analysis are financial newspapers and magazines, inspections, research prepared by others, ratings services, press releases, and annual reports, prospectuses and other filings with the SEC. The implementation of these strategies varies based upon the individual client.

Each client's account is managed on the basis of the client's financial situation, investment objectives and instructions. The Representative works with the client to obtain sufficient information from the client to provide individualized investment advice and is reasonably available to consult with the client on an ongoing basis. Clients are permitted to impose reasonable restrictions on the management of the account.

A quarterly custodial statement, containing a description of all account activity is provided to the client. The Representative reviews the overall performance of each account on a periodic basis to ensure that transactions are suitable based on the client's investment objectives, meet quality expectations of the client and comply with any investment restrictions requested by the client.

Clients who choose a third-party Portfolio Manager should carefully review the third-party firm's Form ADV Part 2 for information on their investment strategy. Investment strategies vary by the Portfolio Manager selected.

Investing in any type of security involves risk of loss that clients should be prepared to bear. SMH does not guarantee the performance of an account or any specific level of performance. Market values of the securities in the account will fluctuate with market conditions. When the account is liquidated, it may be worth less than the amount invested.

## **Voting Client Securities**

As a matter of firm policy and practice, SMH has no authority to act or render any advice with respect to voting proxies on behalf of advisory clients. Clients will receive proxies or other solicitations directly from the account custodian or transfer agent, not from SMH. Clients retain the responsibility for voting all proxies for securities maintained in client portfolios.

## **Client Information Provided to Portfolio Managers**

The Representative will obtain information prior to opening an account regarding the client's financial situation, goals and investment objectives, risk tolerance, time horizon and other relevant factors. The Representative will also inquire as to the client's interest in imposing any reasonable restrictions on the management of the account.

If a third-party Portfolio Manager is selected by the client, the client's information and restrictions on investments will be shared as directed by the client in accordance with the parameters of the dual contract arrangement.

The Representative will contact the client at least annually to determine if any changes have occurred that may affect the ongoing suitability of the investments selected and to determine if any new restrictions

should be imposed on the account. If any changes have occurred; the Representative will notify the Portfolio Manager.

## **Client Contact with Portfolio Managers**

Clients are generally free to contact SMH and their Representative at any time during normal business hours via telephone, facsimile, mail or email. In-person meetings should be scheduled in advance to ensure that the Representative is available.

In the event that a third-party Portfolio Manager has been hired, the client may contact the Portfolio Manager directly or contact their Representative to arrange a meeting with the Portfolio Manager.

## **Additional Information**

### **Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to the client's evaluation of SMH or the integrity of SMH's management.

SMH is a broker/dealer in addition to its activities as a registered investment adviser. In connection with its broker/dealer business, SMH has been the subject of certain regulatory actions, some of which SMH has determined to be immaterial. Others are summarized below:

On January 8, 2008, SMH entered into a Letter of Acceptance, Waiver and Consent ("AWC") with the NASD (predecessor to FINRA) where SMH neither admitted nor denied the allegations that during the period July 2000 until December 2005, SMH (1) failed to establish, maintain, and enforce adequate procedures and systems that were tailored to ensure that its hedge fund, prime brokerage services, and soft dollar activities were in compliance with federal securities laws and rules, and pertained to supervision of its employees who provided services to funds utilizing the prime brokerage services divisions' platform; (2) allowed improper payment of \$325,000 in soft dollars to one hedge fund manager; and (3) lacked adequate procedures concerning the contents of hedge fund sales materials prepared and disseminated by SMH and distributed sales literature that did not adequately disclose material investment risks to potential investors in accordance with NASD Notice to Members 03-07. During the period January 2003 until December 2004, SMH (1) failed to retain certain e-mails and instant messages sent to and received by certain employees in the prime brokerage services division and (2) permitted an unregistered employee of the prime brokerage services division to engage in activities that required registration. In 2002, SMH modified certain brokers' compensation structure so that they shared in the prime brokerage services profit pool, derived in part from commissions earned on the fund's trading. As a result, contrary to restrictions, from April 2002 to June 2004, the brokers shared indirectly in the commissions SMH earned in the fund's trading, but did not amend the fund's offering document to accurately depict the sharing arrangement. SMH was censured, paid a fine in the amount of \$450,000, and entered into an undertaking to have an independent consultant review SMH's systems and procedures.

On June 16, 2008, SMH entered into an AWC with the NASD where SMH neither admitted nor denied the allegations that, during the period December 2002 until April 2004, SMH failed to establish, maintain or enforce a supervisory system and procedures reasonably designed to detect and prevent market timing activities and that SMH failed to take supervisory action against a Representative who appeared to be market timing. SMH was censured and paid a fine in the amount of \$45,000.

On November 20, 2008, SMH consented to the entry of an Order brought by the Texas State Securities Board ("TSSB") that alleged the firm failed to require two agents of an independent investment adviser within SMH's network to be appropriately registered to conduct business in the State of Texas. The TSSB found that SMH failed to enforce a system reasonably designed to supervise the activities of its agents and also found that one of SMH's agents failed to disclose an outside advisory business activity. The firm was reprimanded and paid a fine in the amount of \$30,000. In wrap fee programs sponsored by SMH, either the client or SMH may terminate an advisory agreement upon a thirty-day written notice to the other. For programs not sponsored by SMH, the standard is generally the same. Specific termination parameters can be found in the advisory agreement and/or the Wrap Fee Program Brochure for the applicable program. In wrap fee programs sponsored by SMH, either the client or SMH may terminate an advisory agreement upon a thirty-day written notice to the other. For programs not sponsored by SMH, the standard is generally the same. Specific termination parameters can be found in the advisory agreement and/or the Wrap Fee Program Brochure for the applicable program.

On August 7, 2012 SMH entered into an AWC with FINRA where SMH neither admitted nor denied the allegations that (1) failed to reasonably supervise a registered representative who was under a heightened supervision plan, (2) failed to supervise the options trading at a branch office, (3) failed to establish and maintain an adequate AML compliance program and (4) failed to accurately calculate its net capital requirement due to a proposed credit agreement between a bank and SMH's parent company that pledged its assets, causing inaccurate reporting for more than 18 months. SMH was censured and paid a fine of \$150,000.

On January 2, 2015 SMH entered into an AWC with FINRA which alleged that on December 28, 2012, as a result of an inaccurate deferred tax balance calculation, SMH inaccurately calculated its excess net capital. Based on that, on December 28, 2012 SMH's board of directors authorized a distribution to its owners, in connection with which it filed with FINRA a notice of withdrawal of equity capital on January 2, 2013. SMH failed to properly accrue this capital distribution as a liability, instead reflecting it as an expense when the distribution occurred on January 4, 2013. When SMH later provided FINRA with an estimated net capital calculation that reflected the correct value for the deferred tax asset and distribution, it showed a net capital deficiency until February 28, 2013. Additionally, from October 1, 2012 to February 28, 2013 SMH failed to maintain books and records that properly reflected the book basis amounts for partnership interests sold in October 2012. Consequently, SMH filed inaccurate FOCUS reports for periods ending October, November and December 2012, as well as January and February 2013. SMH was censured and paid a fine of \$85,000.

## **Other Financial Industry Activities and Affiliations**

SMH is wholly owned by Tectonic Holdings, LLC ("Tectonic"). As such, SMH is managed by the SMH Managers of Tectonic who have the requisite FINRA licenses to manage a SEC registered Investment Adviser and Broker-Dealer. However, SMH exercises its own independent investment and voting discretion in accordance with its investment philosophy, fiduciary duties, client guidelines and policies and procedures as a broker dealer and an investment adviser. In addition to advisory services, SMH offers a broad range of financial services to clients. Currently, the majority of SMH's revenues are generated by brokerage activities, with the remaining revenues being advisory services and fee-based business. SMH is also registered as a broker dealer and is affiliated with another investment adviser, Miller-Green Financial Services LLC, and an insurance agency, HWG Insurance Agency LLC, as described below.

### **Broker Dealers:**

#### **Sanders Morris Harris LLC, registered Broker Dealer (CRD No. 20580)**

As a result of the dual registration of SMH as an investment adviser and broker dealer, Representatives, principal executive officers and other related employees of SMH may also be Registered Representatives, managers, and/or officers of the SMH registered broker dealer and FINRA member. SMH may perform and

receive compensation for, among other things, brokerage, asset management, underwriting of syndicate and secondary securities offerings, and similar services. The advice given and the action taken with respect to such services may differ from advice given or the timing and nature of action taken with respect to advisory accounts.

Dual registration may present a conflict of interest to the extent that a Representative recommends the purchase of security, which results in commissions being paid to the Representative as a registered representative of the broker dealer. The commissions and fees charged by the broker dealer are in addition to SMH's management fee and other fees and expenses of investment companies in which a client's account may be invested.

SMH may purchase or sell securities in which SMH or its Representatives directly or indirectly have or may acquire a position or interest. In some circumstances SMH and its Representatives may receive customary compensation from mutual fund companies, including 12b-1 fees for performing certain administrative and/or shareholder servicing related tasks associated with SMH clients' investments in such securities. SMH and its Representatives may also be compensated for referral activity.

## **Investment Advisers:**

### **Related Persons: Miller-Green Financial Services ("MGFS")**

Relationships and arrangements with related persons: MGFS is affiliated with SMH. MGFS employees may also be Representatives of SMH in its capacity as a broker-dealer. Those Registered Representatives may receive compensation from the sale of investment companies (mutual funds), insurance, and other investments to various clients. Additionally, the client could select MGFS as the Portfolio Manager of the account. In such event, SMH and MGFS may share in the fees collected.

### **Related Persons: Tectonic Advisors, LLC ("Tectonic")**

Relationships and arrangements with related persons: Tectonic is under common ownership with SMH. Employees of Tectonic may also be Registered Representatives of SMH, the dual registrant. Those Registered Representatives may receive compensation from the sale of investment companies (mutual funds), insurance, and other investments and services to various clients. Certain officers and directors of Tectonic may also serve as officers and directors of SMH.

Through Tectonic Holdings LLC, we are also affiliated with the following investment advisers and operating entities – Sanders Morris Harris LLC, Tectonic Advisors, LLC, HWG Insurance Agency, Inc., (insurance). Sanders Morris Harris LLC is both an investment adviser and a registered broker-dealer. Through common ownership of Tectonic Holdings, LLC Additionally, MG is also affiliated with Cain Watters & Associates, and Privus Financial, LLC; both SEC registered investment advisors. MG is also affiliated with National Bank, T Bank, NA.

## **Insurance Agency:**

### **Related Persons: HWG Insurance Agency, LLC.**

Relationships and arrangements with related persons: SMH Representatives may also be licensed insurance agents for HWG Insurance Agency, LLC, a subsidiary of SMH. If a client elects to purchase an insurance product through an SMH employee or Representative, which may include life, accident, disability insurance and annuities, the Representative may receive a commission from those sales. This presents a conflict of



interest to the extent that the Representative recommends the purchase of an insurance product resulting in a commission being paid to the Representative as an insurance agent.

## **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

SMH has adopted a Code of Ethics for all Representatives and employees of the firm describing its high standard of business conduct and its fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, insider trading, rumor mongering, gifts and entertainment, and personal securities trading, among other things. All Representatives and employees at SMH must acknowledge the terms of the Code of Ethics annually, or as amended. SMH's Representatives and employees are required to follow SMH's Code of Ethics.

SMH's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting us using the information the cover page.

SMH anticipates that from time to time, SMH may recommend and effect the purchase or sale of securities in which SMH, its affiliates and/or clients, directly or indirectly, have a position of interest.

In compliance with the Code of Ethics and applicable laws, officers, directors and employees of SMH and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for SMH's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of SMH will not interfere with: (i) making decisions in the best interest of advisory clients; and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

The Code of Ethics requires pre-clearance of certain transactions. It also restricts trading in close proximity to client trading activity. In some situations, employees may be permitted to invest in the same securities as clients. As a result, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored to reasonably prevent conflicts of interest between SMH and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis to obtain best execution and avoid price differential. In such circumstances, the affiliated and client accounts will share commission costs equally (if applicable) and transactions are executed on an average price basis.

SMH prohibits principal transactions in advisory client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account.

Although occurring on an infrequent basis, SMH or its Representatives may execute transactions in which the client's securities are sold to or bought from an SMH brokerage customer (i.e., an agency cross transaction). Agency cross transactions are only executed for those clients who have provided written consent. Written consent is obtained only after the client has received full written disclosure that SMH or the Representative may act as broker, receive commissions from, and potentially have a conflicting division of loyalties and

responsibilities regarding both parties to such transaction. Client's written consent may be revoked at any time by written notice to SMH. Each client will receive a written confirmation at or before the completion of each such transaction. The confirmation will include a statement of the nature of such transaction and the date the transaction took place. The confirmation must also contain an offer to furnish, upon request, the time the transaction took place and the source and amount of any other remuneration received or to be received by the SMH or the Representative in connection with the transaction. An annual disclosure statement identifying the total number of such transactions and the total amount of all commissions or other remuneration received in connection with such transactions during the period must also be provided. Under no circumstances will SMH or a Representative make recommendations to parties on both sides of the transaction.

Representatives may buy or sell for themselves securities that they also recommend to clients. Securities purchased and sold for the account of a Representative or employee are purchased and sold on the same basis for a client according to the client's stated goals and investment objectives. In all instances, the positions would be so small as to have no impact on the pricing or performance of the security.

Representatives may hold positions in securities held or recommended to clients but may not front-run or otherwise benefit from these positions. Internal procedures have been instituted to ensure that the client is treated fairly in execution of all trades.

To avoid conflicts of interest, SMH directors, officers or employees are prohibited from buying or selling securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of their employment unless the information is also available to the investing public on reasonable inquiry. No associated person of SMH shall place their own interests over those of the advisory client. Further, all Representatives must comply with all applicable federal and state regulations governing registered investment advisory practices.

## **Review of Accounts**

MH Representatives monitor investment strategies on a periodic basis. Changes affecting a particular investment strategy may trigger changes to all client portfolios following that strategy. Portfolios not following a particular strategy may also be reviewed periodically by the Representative for investment opportunities. In addition, not less than annually, accounts are reviewed with clients by Representatives to ensure that the strategy continues to meet the client's investment objectives and to determine if the client wishes to impose any new restrictions on the management of the account.

The overall performance of each portfolio is reviewed on a periodic basis by the Representative. Portfolio transactions are reviewed to ensure that each transaction: (1) is suitable to the client's investment objectives, (2) meets the client's quality standards, and (3) complies with the client's investment restrictions, if any.

The nature and frequency of reports to clients are determined primarily by the particular needs of each client. Generally, SMH issues quarterly performance reports detailing account holdings. Clients also receive account statements from the custodian at least quarterly detailing all activity in the client's managed account.

Accounts are valued by the account custodian who utilizes a third-party pricing service. If third party pricing is unavailable, valuations are provided on at least a quarterly basis and are summarized in a portfolio performance report detailing assets, transactions, receipt and disbursement of funds, interest and dividends received and gain or loss by security and for the overall account. SMH assumes no responsibility for the accuracy of the valuation of illiquid investments, such as private placements, non-traded REITs, and annuities included in the account for reporting purposes only.

Third party portfolio managers, if applicable, will also review and monitor accounts on a periodic basis. A detailed explanation of the portfolio manager's review can be found in the manager's Form ADV Part 2A.

## **Client Referrals and Other Compensation**

From time to time, SMH may enter into solicitation agreements with individuals or entities whereby investment advisory accounts or private fund investors are solicited by SMH and referred to another state or SEC-registered investment adviser. In these situations, SMH may be compensated for the referral activity.

Similarly, SMH may enter into solicitation agreements where investors are solicited by another individual or entity and referred to SMH. In these situations, the individual or entity may be compensated by SMH for the referral activity.

Solicitation agreements require the solicitor to perform his duties in accordance with the Investment Advisers Act of 1940 and appropriate state regulations. Under the agreement, the solicitor must also provide each prospective client with Part 2 of Form ADV for the firm receiving the referral and SMH's separate written disclosure document.

## **Financial Information**

Registered investment advisers are required to provide clients with certain financial information or disclosures about its financial condition. Currently, SMH has no financial condition that is reasonably likely to impair its ability to meet contractual and fiduciary commitments to clients. SMH has not been the subject of any bankruptcy proceeding.