

# SANDERS MORRIS HARRIS

A Member of The Edelman Financial Group

## Investment Advisory Services Brochure

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This brochure provides information about the qualifications and business practices of Sanders Morris Harris Inc. 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 Inc. 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 investment adviser provide you with information about which you determine to hire or retain an investment adviser.

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

## **Item 2: Material Changes**

Since our last annual update on March 28, 2012, this document has been amended as indicated below:

- On September 19, 2012, Sanders Morris Harris Inc.'s parent company, The Edelman Financial Group Inc. ("TEFG"), became a privately held company after consummating a merger with an affiliate of Lee Equity Partners, LLC, a New York private equity firm.
- On November 1, 2012, Silverbay Capital Management, LLC and SOF Management, LLC were removed from SMHI's related persons.
- On November 1, 2012, the Genworth Advisor Platform and Pershing PEAK Advisor were removed from Wrap Fee Programs Offered But Not Sponsored by SMHI.
- On March 25, 2013, a new service was made available to plan sponsors ("Plan Fiduciaries") of 401(k), profit-sharing and retirement plans subject to the Employee Retirement Income Security Act of 1974 ("ERISA") under a Retirement Program Investment Management.

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## **Item 4: Advisory Business**

### **History of Sanders Morris Harris Inc.**

Sanders Morris Harris Inc. (“SMHI”) is an investment adviser firm registered with the United States Securities and Exchange Commission (“SEC”), File No. 801-66300, under the Investment Advisers Act of 1940 (“Advisers Act”). SMHI is also an SEC-registered broker-dealer, CRD No. 20580, and member of the Financial Industry Regulatory Authority (“FINRA”) and the Securities Investor Protection Corporation (“SIPC”).

Sanders Morris Harris Inc. was formed in January 2000 as the result of a merger between Sanders Morris Mundy Inc. and Harris Webb & Garrison, Inc. SMHI is a wholly-owned subsidiary of The Edelman Financial Group Inc. (“TEFG”), a financial services holding company with principal offices in Houston, Texas and Fairfax, Virginia, and an indirect wholly-owned subsidiary of Lee Summer LP., a holding company formed by equity investors led by Lee Equity Partners, LLC (“LEP”). LEP private equity funds (specifically, Lee Equity Partners Fund Summer AIV, LP, which is controlled by Lee Equity Partners GP, LLC) comprise the ultimate principal owners of SMHI.

SMHI has approximately 30 individual Investment Advisory Representatives (“Representatives”) whose responsibilities range from providing back office support and administration of advisory services to providing investment advice and financial planning.

As of December 31, 2011, SMHI managed approximately \$345,906,884. Of this amount, \$317,254,340 was managed on a discretionary basis and \$28,652,515 was managed on a non-discretionary basis.

SMHI provides investment supervisory services primarily through wrap fee programs, some of which are also sponsored by SMHI or its affiliates. In a wrap fee program, services such as investment advice, investment research and brokerage services are bundled together. In this type of arrangement, a client pays a wrap fee, based on the percentage of assets under management, rather than transactional charges. The wrap fee is intended to provide payment for all of the direct services the client receives (such as commissions or transaction charges on the purchase and sale of securities), as well as cover the administrative costs incurred by the investment adviser firm.

From time to time, investment supervisory services are also made available outside of a wrap fee program. In these instances, commonly referred to as advisor directed platforms, the services provided by the Representative in exchange for a stated fee are detailed in the services advisory agreement.

Other advisory services, such as financial planning, seminars, and referral activities, are also made available by SMHI.

In addition to investment advisory services, SMHI primarily provides brokerage, asset management, and similar services to individuals, banks, thrift institutions, pension and profit sharing plans, trusts, estates, charitable organizations, and other corporations and business entities.

Investment advice is tailored to meet a client’s needs based on the client’s financial condition, need for liquidity, time horizon, risk tolerance, and investment objective. Clients may impose restrictions on investing in certain securities or types of securities.

## **Investment Supervisory Services**

SMHI primarily provides portfolio management services through wrap fee programs. These programs may be managed on either a discretionary or non-discretionary basis and may sometimes involve the use of a third-party Portfolio Manager (“Portfolio Manager.”) Ownership of all cash, securities and other instruments in the account is retained by the client. As compensation for its services, SMHI receives a portion of the fees. Wrap programs are generally utilized with actively traded accounts where asset-based fees may be lower than the potential transaction charges associated with a commissionable account.

For a complete description of the Wrap Fee Programs listed below, a client should refer to the Wrap Fee Program Brochure (Part 2A Appendix 1 of Form ADV) prepared by the sponsor of the respective program.

### **Wrap Fee Programs**

SMHI sponsors three advisory wrap-fee programs through which it offers investment advice: (1) FOCUS Asset Management Program (“FOCUS”), (2) Managed Asset Program (“MAP”) and Universal Managed Asset Program (“UMAP”). These programs, sponsored by SMHI, are 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. In FOCUS and MAP, a client’s assets are invested in various securities including equities and fixed income, publicly traded real estate investment trusts or REITs, exchange traded funds or ETFs, no load mutual funds or load funds purchased at net asset value (“NAV”), publicly traded closed-end funds, options, cash and money market funds. In UMAP, a client’s assets are invested in portfolios containing open-end mutual funds and ETFs in a broad range of asset classes including domestic stocks, international stocks, global bonds, and alternative investments. SMHI invests clients’ assets in securities that it deems to be consistent with the client’s stated investment objectives.

#### **FOCUS Asset Management Program**

FOCUS is a flexible wrap fee advisory program that offers the client the choice of discretionary, non-discretionary, and third-party portfolio manager platforms selected by a client. When a discretionary arrangement is selected, the Representative selects investments and executes transactions without further consultation with the client. In a non-discretionary arrangement, the client authorization must be received prior to executing any transactions in the investments selected by the Representative. In this type of arrangement, the Representative may also execute transactions in securities selected by the client. When a Portfolio Manager platform is utilized, the third-party Portfolio Manager is granted discretion over the account.

SMHI serves as the investment adviser for all FOCUS accounts and does not select other portfolio managers or investment advisers to manage client accounts.

Management services in FOCUS are provided by a Representative selected by the client on either a discretionary or non-discretionary basis. These services include, but are not limited to, portfolio reviews and recommendations with respect to various investments and various administrative services.

A client also has the option to establish a dual contract wrap fee account whereby the client directs SMHI to engage the third party Portfolio Manager(s) selected by the client to invest the account assets on a discretionary basis. SMHI assumes no responsibility for the selection of the Portfolio Manager or the suitability of the recommendations made by the Portfolio Manager.

No minimum investment is required to participate in FOCUS; however, minimum requirements may be established by any third-party Portfolio Manager selected by the client.

### **Managed Asset Program**

MAP is a multi-platform wrap fee advisory program where services are provided by a Representative and may include the services of third-party Portfolio Managers.

SMHI 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 SMHI’s behalf and the processing, pursuant to SMHI’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 SMHI, 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 SMHI 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, SMHI will assign a new Portfolio Manager to 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 SMHI 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 SMHI.

The Lockwood Investment Research Group provides research opinions for the Portfolio Managers within Lockwood’s various platforms. For example: Of the 145 Portfolio Managers available in the Elite Choice Platform, 97 are part of the Lockwood Research Coverage List developed by Portfolio Design Services, described in more detail below.

The Representative’s services within Elite Choice include, but are not limited to, 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 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 SMHI at account opening or in subsequent documentation.

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

In the event that a Portfolio Manager terminates from the program for any reason, SMHI 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.

Should a 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 in accordance with client's investment objectives and other information provided at account opening or in subsequent documentation.

If a client elects a non-discretionary arrangement with the Representative, the Representative will obtain client consent prior to execution of any transaction in the account, and will obtain client approval of any asset allocation proposal. The Representative will have no investment or other discretion with respect to account assets and will not perform any discretionary acts including, but not limited to, advice as to the voting of proxies.

In Elite Trade, transactions will generally be executed through SMHI 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.

Within Elite LIS, a 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. As a result 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 Lockwood Investment. 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 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.

Within Elite LAAP, a 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.

#### 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 SMHI. A client should assess his/her own investment needs based on his/her own financial circumstances and investment objectives.

#### MAP Program Features by Platform

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

#### **Universal Managed Asset Program**

UMAP is a wrap fee asset allocation program where the client retains SMHI and the Representative for the purpose of opening an investment advisory account and participating in UMAP. SMHI will invest participating client assets on a discretionary basis in one or more diversified asset allocation models consisting of open-end investment companies (commonly referred to as mutual funds) and closed-end investment companies (commonly referred to as exchange-traded funds or ETFs) in exchange for an all-inclusive asset-based advisory fee ("Advisory Fee").

SMHI offers UMAP portfolios containing open-end mutual funds and ETFs in a broad range of asset classes including domestic stocks, international stocks, global bonds, and alternative investments. Alternative investments may include mutual funds or ETFs invested in real estate investment trusts, arbitrage strategies, managed futures, commodities, initial public offerings, long/short strategies and other non-traditional investments. Neither SMHI nor any of its affiliates serve as investment adviser to any of the investment company products included in portfolio assets. UMAP portfolios range from conservative to aggressive.

The client's Representative assists the client in selecting the portfolio that best meets the client's investment objectives, financial situation and risk tolerance. The client may impose reasonable restrictions on the account(s) which are not fundamentally inconsistent with the client's investment objective or the nature or operation of UMAP.

No third party money managers are used in UMAP. The minimum account size is \$100,000.

### **Wrap Fee Programs Sponsored by an SMHI Affiliate**

#### **Edelman Managed Asset Program**

SMHI Representatives may offer the Edelman Managed Asset Program ("EMAP") sponsored by Edelman Financial Services LLC ("EFS"), an investment advisor registered with the SEC, and an affiliate of SMHI. In EMAP, client assets are invested in diversified asset allocation models consisting of mutual funds and ETFs. The minimum account size required to participate in EMAP is \$50,000. The minimum is \$3,000 for households that establish multiple accounts, provided the total for all accounts is at least \$50,000.

EMAP clients enter into a tri-party agreement with SMHI, the Representative, and EFS. Under this agreement, the Representative assists the client in determining a risk profile and investment objectives based upon the client's financial situation. The Representative, on a non-discretionary basis, is responsible for the selection and suitability of models in relation to the specific financial circumstances of the client and will provide ongoing consultation and services regarding the management of the account. As set forth in the tri-party agreement, EFS is granted limited discretionary authority to manage the asset allocation models by effecting client-approved investment strategies. In addition, EFS provides back office support to the Representative. .

### **Wrap Fee Programs Offered But Not Sponsored by SMHI**

Certain SMHI clients participate in various wrap fee programs that are sponsored by an independent firm. For complete details of each program, clients should obtain the Wrap Fee Program Brochure (Part 2A Appendix 1 of Form ADV) prepared by the program's Sponsor from their Representative.

#### **Envestnet Asset Management Program**

SMHI offers the Private Wealth Management Program, a wrap fee program sponsored by Envestnet Asset Management, Inc. ("Envestnet"), an investment adviser firm registered with the SEC.

Within this program, Envestnet delivers a multi-product online platform which includes Managed Account Solutions with Manager Blends and Mutual Funds, Unified Managed Accounts, PMC Multi-Manager Accounts, PMC Select Mutual Fund Solutions, Sigma PMC Mutual Fund Solutions, PMC ETF Solutions, PMC Tactical ETF Solutions, Alternative Investment Solutions, Advisor as Portfolio Manager and Third Party Strategist Program. Based upon the product selected, Envestnet may also serve as a Portfolio Manager with full discretionary authority to invest and reinvest portfolio assets.

The services of the Representative within this program include formulation of risk tolerance and investment objectives, and investment strategy. The Representative, on a non-discretionary basis, is responsible for the selection and suitability of product, investment vehicles, and sub-managers that are used to implement the client's investment strategy.

### Lockwood Managed Account Link Program

SMHI offers Managed Account Link (“MAL”), a wrap fee program sponsored by Lockwood. Under this program Lockwood provides investment management services and grants SMHI and its Representatives access to the Lockwood Proposal System. This system, used to generate proposals, also includes investment manager analysis, research, and asset and/or style allocation capabilities. Prior to making an investment manager available in the Program, Lockwood employs a multi-step screening process to evaluate the manager’s process and strategy, among other things. Quarterly investment manager scorecards are then issued by Lockwood on an ongoing basis.

Representatives utilize software and documentation provided by Lockwood to assist the client in selecting an investment style allocation and/or a diversified portfolio of investment vehicle(s) and/or manager(s) appropriate for the client both on an initial and ongoing basis. Neither Lockwood nor the Representative has discretion over the account; however, any manager selected by the client is granted investment discretion for the day-to-day management of the account.

### Morningstar Managed Portfolios Program

SMHI offers a wrap fee program sponsored by Morningstar Investment Services, Inc. (“Morningstar”), an investment adviser firm registered with the SEC. Within this program, Morningstar offers multiple portfolios intended for a range of clients based on such factors as age, time horizon, risk tolerance, return objectives and any reasonable restrictions the client may place on the account. Morningstar provides discretionary investment services such as constructing the portfolios by analyzing a universe of available investments using qualitative and quantitative analyses and continuously monitoring the portfolios within the program, rebalancing and/or reallocating when deemed necessary.

Representatives utilize the program questionnaire, proposal system and other tools provided by Morningstar to make a suitable portfolio recommendation for the client. SMHI currently utilizes the following mutual fund strategies available within the program: Asset Allocation Series, Retirement Income Series, and Focused Allocation Series. In addition to mutual fund strategies, some clients participate in the ETF Strategy. The Representative also provides ongoing analysis and reviews on a non-discretionary basis throughout the client’s participation in the program.

### SEI Investment Management Corporation

SMHI offers a multi-product online platform which includes SEI Family of Funds, Institutional Clients, Managed Account Program, Integrated Managed Account Program, GoalLink Program, GoalLink Integrated Managed Account Program, SEI Distribution-Focused Strategies, SEI Asset Allocation Program, SEI Fixed Income Management Program, and SEI Wealth Network. These are different wrap fee programs sponsored by SEI Investments Management Corporation (“SEI”), an investment adviser firm registered with the SEC. Under these programs, the Representative uses the SEI Proposal Tool to assist the client in selecting an appropriate Investment Strategy (“Strategy”) based on the client’s financial situation, risk tolerance, and investment objectives. Depending on the program, SEI shall provide discretionary management of the client’s assets in the Strategy and will adjust the weights of particular asset classes in the Strategy based on the market environment at a point in time.

### **Termination of Wrap Fee Programs**

In wrap fee programs sponsored by SMH, either the client or SMHI may terminate an advisory agreement upon thirty days written notice to the other. For programs not sponsored by SMHI, 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 specific program.

## **Advisor Directed Platforms**

### FOLIOfn

SMHI has an agreement with FOLIOfn Investments, Inc. (“FOLIOfn”), a registered broker/dealer and member of FINRA, to administer advisory accounts on behalf of SMHI. Under this arrangement, the Representative will provide investment advisory services and will direct, on a discretionary basis, FOLIOfn to execute transactions on the client’s behalf.

FOLIOfn provides clearance, custodial functions, and reporting services, in addition to order execution through online folios, accessed through their proprietary website.

### Retirement Program Investment Management

SMHI Representatives may make services available to plan sponsors (“Plan Fiduciaries”) of 401(k), profit-sharing and retirement plans subject to the Employee Retirement Income Security Act of 1974 (“ERISA”) under a Retirement Program Investment Management Agreement. SMHI is appointed to provide non-discretionary investment management services for the Plan Fiduciary which may include: (i) Defining investment-related goals and objectives and assisting with the development of an Investment Policy Statement; (ii) Providing advice to the Plan Fiduciary about asset classes and investment alternatives available to the Plan in accordance with the plan’s investment policies and objectives; (iii) Assisting in the selection of qualified default investment alternatives from a variety of open-end registered investment companies (“Mutual Funds”) and exchange-traded funds (“ETFs”); (iv) Monitoring investment options and meeting with the Plan Fiduciary on a periodic basis to discuss the performance of the investment options; (v) Assisting in the education of the plan participants about general investment principals and the investment options; (v) Assisting in group enrollment meetings designed to increase plan participation among employees and investment and financial understanding by the employees; and/or (vi) Providing periodic reports for the Plan Fiduciary. Such services are provided to the Plan Fiduciary as the client.

The investment options selected and approved by the Plan Fiduciary shall be offered as investment options to plan participants who individually direct the investment of an account or sub-account under the plan. Notwithstanding any recommendations made by SMHI, the selection, approval or removal of any investment options under the Plan shall be made by the Plan Fiduciary, in its sole discretion.

### General Advisory Agreement

SMHI from time to time permits the use of a general advisory agreement that establishes an arrangement between SMHI and a client to participate in an asset management program. This agreement, however, is not specific to any particular platform.

Under the general agreement, the client and the Representative determine if the Representative is granted the authority to execute transactions on a discretionary basis, name the account custodian, and establish a fee schedule.

Individual asset management programs may provide that a client’s assets are invested in various securities including equities and fixed income, publicly traded real estate investment trusts or REITs, exchange

traded funds or ETFs, no load mutual funds or load funds, publicly traded closed-end funds, options, cash and money market funds.

## **Financial Planning**

Representatives of SMHI may conduct financial planning for a fee. As selected by the client, financial planning advisory services may include: financial plan preparation, income and estate tax review and recommendations, estate planning, retirement planning, educational planning, planned giving, portfolio evaluation, risk management, investments, asset allocation, cash flow analysis, financial options, life and disability insurance evaluation, and/or review of employee benefits. In exchange for these services, a client pays a total fee based upon the Representative's disclosed hourly rate or a flat fee, as agreed upon by the client and the Representative. The frequency and schedule for payment are determined at the time the client enters into the financial planning agreement. Fees may be either in advance or arrears. Either party may terminate the agreement upon written notice to the other party. If the agreement is terminated prior to completion of services, the fee amount to be charged to the client is at the discretion of the Representative and SMHI based upon the time and resources expended prior to termination.

## **Seminars**

From time to time, SMHI Representatives may offer educational seminars to members of the public. The subject matter of these seminars varies and may include the solicitation of SMHI products or services.

## **Referral Activity**

From time to time, SMHI may enter into solicitation agreements with individuals or entities whereby investment advisory clients are solicited by SMHI and referred to another state or SEC-registered investment adviser, who may be an affiliate of SMHI. In these situations, SMHI may be compensated for the referral activity.

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

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

# **Item 5: Fees and Compensation**

## **Wrap Fee Programs**

SMHI offers a number of wrap fee programs to clients. The fees and the manner in which they are charged by SMHI for these programs vary. The fee schedule is established in a client's written agreement applicable to the advisory service selected by the client. For a complete description of the compensation structure of the programs, clients should refer to the Wrap Fee Program Brochure (Part 2A Appendix 1 of Form ADV) prepared by the respective program sponsor of the programs in which the client is interested.

The client should be aware that lower fees for comparable services may be available in other SMHI programs or from other sources.

A portion of the Advisory Fee is paid to the Representative. The Advisory Fee earned may be more or less than what SMHI or its Representatives might earn from other programs available in the financial services industry or if the services were purchased separately. Therefore, SMHI and its Representatives may have a financial incentive to recommend one program over other programs or services.

For accounts that contain mutual funds or ETFs, each mutual fund or ETF bears its own fees and expenses (none of which are shared with SMHI or its affiliates) as disclosed in the applicable prospectus or product description. The Advisory Fee does not cover fees or expenses charged by any mutual fund or ETF held in the account. In addition, the Advisory Fee does not include debit balances, wire transfer fees, overnight check fees, margin interest, account transfer fees, IRA and retirement plan fees, SEC fees, 12b-1 fees for certain money market funds, or other fees or taxes required by law.

“Brokerage Practices” further describes the factors that SMHI considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

## **Wrap Fee Programs Sponsored by SMHI**

### **FOCUS Program**

The Total Program Fee for FOCUS includes the Advisor Fee shared by SMHI and the Representative and the Program Administrative Fee paid to the sponsors, administrators, or custodian of the program.

The negotiable Advisor Fee compensates SMHI and the Representative for investment advisory services provided, pursuant to the Focus Asset Management Program Agreement. This fee is shared by SMHI and the Representative and covers the management and other account related services provided by SMHI and the Representative, such as investment advice, investment selection, and the allocation and reallocation of investments. This fee may be discounted at the discretion of the Representative.

The non-negotiable Program Administrative Fee compensates SMHI and Pershing, the program’s custodian, for the cost of execution, clearance and custody costs, fee calculation and deduction, and performance reporting.

The Total Program Fee is payable quarterly and may be deducted either in advance or in arrears using the following formula:

$$\frac{\text{Account Value} \times \text{Fee Schedule} \times \# \text{ of days in the billing cycle}}{365 \text{ (366 if leap year)}}$$

The account value for fee calculation purposes is based on the market value of the securities held in the account. The calculation excludes illiquid investments such as private placements, non-traded REITs, annuities, investments that include a publicly disclosed selling concession such as underwritten offerings, and any other securities previously designated by the client. The calculation follows a blended (or “not retroactive”) schedule where the fee schedule for each asset level is calculated using the relevant formula above. The fee for each asset level will then be added together to determine the total fee due for the specified period. Under certain circumstances, fees may be negotiated.

When advance billing is selected, 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 SMHI, 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. In the event that the advisory agreement is terminated prior to the end of a period for which a quarterly fee has been paid, fees are recalculated based on the length of service and unearned fees are returned to the client.

When arrears billing is selected, the Total Program Fee is deducted from the account at the end of the calendar quarter. When selecting arrears billing, the client must also elect if billing is to be based upon either the account value on the last day of the calendar quarter or the average daily account value.

If the client elects to be billed in arrears based on account value on the last day of the calendar quarter, subsequent quarterly fees are determined on the last 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 quarter and are due the following day. Accounts added to the billing system during the billing period are charged a pro rata fee at the end of the period.

If average daily balance billing in arrears is elected, fees are charged at the end of the billing period. Daily account value is based on the previous market close. Fees calculated using this method are always final, and no adjustments will be made for any billing period.

In the event the advisory agreement is terminated prior to the end of a period for which an arrears quarterly fee is due, the fee is prorated and is due immediately.

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, SMHI 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 the account of \$1,000 or more, the fee is adjusted in the next billing period.

The fee schedule for FOCUS is as follows:

<u>Total Assets</u>	<u>Maximum Total Program Fee as a % of Asset Value</u>
First \$100,000	3.00%
Next \$200,000	2.25%
Next \$200,000	1.90%
Next \$500,000	1.70%
Above \$1,000,000	Negotiable

### **Managed Asset Program (MAP)**

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 SMHI, 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 SMHI and the Representative is negotiable; however, the Lockwood portion of the fee is non-negotiable.

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 SMHI, 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, either the Portfolio Manager or the Representative 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 (Elite or Elite Choice) or \$10,000 or more (all other MAP platforms), the Total Program 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%

### **Universal Managed Asset Program (UMAP)**

The non-negotiable Advisory Fee includes discretionary management and periodic review of all investments in the UMAP account. The fee also covers administrative services, transaction costs and clearance and custody of assets. In addition, the fee covers consultation with a Representative who receives compensation as a result of the client's participation in UMAP.

The fee is based on the average daily balance of the assets in the account, calculated on the last day of each calendar quarter. The fee is payable quarterly, in arrears. The first payment is prorated for assets that are placed in the account during a calendar quarter. Fees are payable to SMHI no later than the fifteenth (15th) day after the end of each quarter, in arrears.

When calculating the Advisory Fee, multiple accounts within a household are aggregated to determine the lowest percentage fee as long as the accounts are managed as one relationship.

The Advisory Fee is based on the amount of money the client invests in the program and is not dependent on the amount of trading in the account or the advice given in any particular time period.

SMHI has entered into an agreement with EFS, an affiliated investment adviser, to provide certain administrative services in connection with UMAP. EFS will share in the Advisory Fee as compensation for such services.

The client authorizes SMHI to collect the Advisory Fee and authorizes the custodian to deduct the Advisory Fee from the account under the Client Services Agreement. All fees are noted on the client's custodial account statements. If the account does not hold cash or money market balances sufficient to cover the Advisory Fee, the client may deposit additional funds by the due date. If no such deposit is made, SMHI will liquidate securities in the account in amounts sufficient to cover such fees. Liquidation may cause the client to incur taxes and other costs.

The Advisory Fee schedule for UMAP is as follows:

<u>Total Assets</u>	<u>Advisory Fee as a % of Asset Value</u>
First \$500,000	1.50%
Next \$2,000,000	1.25%
Next \$2,500,000	1.00%
Above \$5,000,000	.75%

### **Other FOCUS, MAP and UMAP Fees:**

The Total Program Fee for MAP and FOCUS 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 SMHI, including commissions charged by broker-dealers other than SMHI, dealer markups or markdowns in principal transactions by or agency transactions with broker-dealers other than SMHI, 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 mutual fund and exchange traded fund prospectuses. 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 SMHI nor the Representative recommends the transfer of such funds into advisory 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 SMHI) 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, SMHI will credit 12b-1 fees back to the account. In non-ERISA accounts, SMHI generally retains 12b-1 fees. However, upon the Representative's request, mutual fund 12b-1 fees may be credited back to non-ERISA accounts.

The cost of the services provided through wrap fee programs may be more or less 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 advisory accounts 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 these programs over other programs and services.

## **Wrap Fee Programs Sponsored by an SMHI Affiliate**

### **Edelman Managed Asset Program (EMAP)**

The quarterly EMAP fees are non-negotiable, are shared by EFS, SMHI, and the Representative, and are payable in arrears.

The fee schedule for EMAP is as follows:

<u>Total Assets</u>	<u>Maximum Total Program Fee as a % of Asset Value</u>
Up to \$149,999	2.00%
\$150,000 - \$399,999	1.65%

\$400,000 - \$749,999	1.25%
\$750,000 - \$999,999	1.00%
\$1,000,000 – \$2,999,999	0.75%
\$3,000,000 - \$9,999,999	0.60%
\$10,000,000 and greater	0.50%
Amounts above \$25 million	negotiable

## **Wrap Fee Programs Offered But Not Sponsored by SMHI**

In addition to the wrap fee programs sponsored by the firm, SMHI utilizes certain wrap fee programs sponsored by other investment advisory firms. The program fees and the manner in which they are charged vary based upon the program selected. The fee schedule is established in a client's written agreement applicable to the advisory services selected by the client.

SMHI and its Representatives are compensated for their services in programs sponsored by other investment advisory firms.

The Total Program Fees are capped 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%

For a complete description of the compensation structure of the programs sponsored by other investment advisers, the client should refer to the Wrap Fee Program Brochure (Part 2A Appendix 1 of Form ADV) prepared by the respective program sponsor.

## **Retirement Program Investment Management**

For its services provided under the Retirement Program Investment Management Agreement, SMHI is paid an Advisory Fee of .50% of the total assets of the Plan per year (.0125% per quarter). The Advisory Fee, which is shared with the Representative, does not include any brokerage commissions and other transactions costs, redemption fees, wire transfer fees, overnight check fees, account closing fees or any other charges or expenses imposed by Mutual Funds or ETFs in which the Plan may invest. In addition, the Plan's administrator, custodian, or other service provider may charge a separate fee to cover the administrative and other recordkeeping costs associated with the Plan and plan accounts.

The Advisory Fee is payable quarterly, in arrears, to SMHI. The Advisory Fee shall be based on the balance of the total assets in the plan accounts as of the end of each calendar quarter. The first payment shall be prorated for assets that are placed in the plan accounts during a calendar quarter. Subsequent fees shall be determined on the last day of each quarter. The Advisory Fee shall be payable to SMHI no later than the 30th day after the end of each quarter, in arrears. Unless otherwise agreed to by the parties, the Plan Fiduciary will cause the Plan's administrator, custodian, or other applicable service provider to deduct the quarterly Advisory Fee from the plan assets and to remit such amounts to SMHI prior to the due date for such quarterly Advisory Fee.

SMHI will receive no other form of compensation for its services other than the Advisory Fee. Some mutual funds selected by the Plan Fiduciary may pay directly or indirectly, as administrative expenses of the mutual fund or pursuant to a written plan described in SEC Rule 12b-1, fees or other compensation (“fees”) to the Plan’s Recordkeeper in recognition of recordkeeping and shareholder services provided by the Recordkeeper. Such fees, which are described in the prospectus or other disclosure material, are used to offset the Recordkeeper’s fees and to the extent that there is excess revenue sharing after the Recordkeeper’s fees have been paid, the remaining dollars will be used to offset the Advisory Fee paid to SMHI with the remainder deducted from Plan assets.

## **General Advisory Agreement Fees**

Under the general agreement, the client and the Representative determine if the Representative is granted the authority to execute transactions on a discretionary basis, name the account custodian, and negotiate and establish a fee schedule. The fee, which is shared with the Representative, can be calculated in advance or in arrears as established by the agreement. This fee covers the management and other account related services provided by SMHI, execution of trades, and clearance and custody costs. Other fees, such as SEC fees, Individual Retirement Account custodial fees or other taxes as required by law, may be incurred and are not included in the fee.

## **Financial Planning Fees**

In exchange for the planning services detailed in the financial planning agreement, the client will pay a total fee based upon the Representative’s disclosed hourly rate or a flat fee, as negotiated and agreed upon by the client and the Representative. The frequency and schedule for payment are determined at the time the client enters into the agreement. Fees may be payable either in advance or in arrears. The fee does not cover compensation for services rendered to the client by the representative outside the scope of the arrangement, such as for services performed in the representative’s capacity as a registered representative or insurance agent.

## **Seminar Fees**

Members of the public may pay a fee to SMHI to participate in educational seminars. The participation fees are paid at enrollment and may vary by seminar date, location, and/or subject matter. In some instances, the fee may be used in whole or in part to offset the cost of seminar materials provided to the attendee.

## **Item 6: Performance-Based Fees and Side-By-Side Management**

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

## **Item 7: Types of Clients**

SMHI primarily provides advisory services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations and corporations and other businesses.

There is no minimum asset requirement to become a client of SMHI. However, certain products, wrap fee programs and platforms may require minimum asset values.

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

SMHI 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 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 in order to ensure that transactions are suitable based on the client's investment objectives, meet quality expectation 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. SMHI 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 more or less than the amount invested.

UMAP portfolios incorporate allocations to alternative investments, including mutual funds or ETFs invested in real estate investment trusts, arbitrage strategies, managed futures, commodities, initial public offerings, long/short strategies, and other non-traditional investments. Investment strategies also include allocation to international/global investments.

Investment in a portfolio that includes alternative investments presents additional risks which the client should consider when making an investment decision. These risks may include adverse market conditions risk, counterparty risk, currency exchange risk, derivatives risk, emerging markets risk, high portfolio turnover, IPO risk, leverage risk, and other risks depending on the investment. Alternative investments are frequently asset classes that are referred to as non-correlated (investments that move contrary to, or without influence from, broader markets). While including non-correlated assets may result in smoother portfolio performance with less volatility, there are no assurances that non-correlated assets will not decline in value.

International investments are subject to risks not associated with domestic investing. In addition to the risks generally associated with domestic investments, international investing is subject to currency, political, economic and social risks.

## **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 your evaluation of SMHI or the integrity of SMHI's management.

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

On January 8, 2008, SMHI entered into a letter of Acceptance, Waiver and Consent ("AWC") with the NASD (predecessor to FINRA) where SMHI neither admitted nor denied the allegations that during the period July 2000 until December 2005, SMHI (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 SMHI 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, SMHI (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, SMHI 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 SMHI earned in the fund's trading, but did not amend the fund's offering document to accurately depict the sharing arrangement. SMHI was censured, paid a fine in the amount of \$450,000, and entered into an undertaking to have an independent consultant review SMHI's systems and procedures.

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

On November 20, 2008, SMHI 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 SMHI's network to be appropriately registered to conduct business in the State of Texas. The TSSB found that SMHI failed to enforce a system reasonably designed to supervise the activities of its agents and also found that one of SMHI's agents failed to disclose an outside advisory business activity. The firm was reprimanded and paid a fine in the amount of \$30,000.

## **Item 10: Other Financial Industry Activities and Affiliations**

SMHI is a subsidiary of TEFG, which is an indirect wholly-owned subsidiary of Lee Summer, LP, a holding company formed by equity investors led by LEP, a registered investment adviser, and Fredric M. Edelman, Chief Executive Officer of TEFG. Equity investors in Lee Summer, LP include certain LEP private equity funds, other institutional investors, including the Teacher Retirement System of Texas,

certain members of management of SMHI and certain members of management and employees of TEFG, and other affiliated investment advisors. Except for Lee Equity Partners Fund Summer AIV, LP and Mr. Edelman, none of the investors has an economic interest that is greater than 6%.

The equity securities of Lee Summer LP do not confer voting rights. All management authority of Lee Summer LP resides with the board of managers (the “Board”) of Lee Summer GP, LLC, its general partner. The current Board structure contemplates: (a) four manager positions designated by LEP and (b) three manager positions designated by Mr. Edelman.

Neither LEP nor the other investors in Lee Summer LP (other than those employed by SMHI) have any involvement in the day-to-day investment or other business operations of SMHI, including with respect to SMHI’s investment determinations on behalf of clients. SMHI exercises its own independent investment discretion in accordance with its investment philosophy, fiduciary duties, and client guidelines. In addition to advisory services, SMHI offers a broad range of financial services to clients. Currently, advisory services and fee-based business comprise only approximately 7% of SMHI’s total business. SMHI is also registered as a broker-dealer and is affiliated with another broker/dealer, certain investment advisers and an insurance agency as described below.

## **Broker-dealers:**

### **Sanders Morris Harris Inc., registered broker-dealer (CRD No. 20580)**

As a result of the dual registration of Sanders Morris Harris Inc. as an investment adviser and broker-dealer, Representatives, principal executive officers and other related employees of SMHI may also be Registered Representatives, managers, and/or officers of the SMHI registered broker-dealer and FINRA member. SMHI 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 SMHI’s management fee and other fees and expenses of investment companies in which a client’s account may be invested.

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

### **Related Persons: Global Financial Services, LLC (“GFS”), registered broker-dealer (CRD No. 35699)**

Relationships and arrangements with related persons: GFS is a subsidiary of TEFG, SMHI’s parent company. Certain members of the GFS Board of Managers also serve as officers and directors of SMHI. In addition, certain employees of SMHI maintain dual securities registrations with GFS and SMHI where services requiring registration are provided to both entities.



## **Investment Advisers:**

### **Related Persons: Edelman Financial Services LLC (“EFS”)**

Relationships and arrangements with related persons: TEFG is the majority owner of EFS, an affiliated adviser of SMHI. EFS employees may also be Registered Representatives of SMHI 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. All such securities transactions are through the SMHI broker-dealer. EFS anticipates that future employees may also be Registered Representatives of SMHI. As described in the Wrap Fee Programs section above, SMHI Representatives offers an EFS sponsored wrap fee program, EMAP, to clients. In those situations, EFS and SMHI would share in the program fees.

### **Related Persons: SMH Capital Advisors, Inc. (“SMHCA”)**

Relationships and arrangements with related persons: SMHCA, an affiliated adviser of SMHI, is a wholly-owned subsidiary of TEFG. SMHCA employees may also be Representatives of SMHI 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. All such securities transactions are through the SMHI broker-dealer. SMHCA anticipates that future employees may also be Registered Representatives of SMHI. Additionally, the client could select SMHCA as the Portfolio Manager of the account. In such event, SMHCA and SMHI will share in the fees collected.

### **Related Persons: GFS Advisors LLC (“GFSA”)**

Relationships and arrangements with related persons: GFSA is a subsidiary of TEFG, SMHI’s parent company. Certain members of the GFSA Board of Managers also serve as officers and directors of SMHI.

### **Related Persons: Miller-Green Financial Services, Inc., Leonetti & Associates LLC, The Rikoon Group, LLC and Investor Financial Solutions, LLC (“Other Advisers”)**

Relationships and arrangements with related persons: Other Advisers are affiliated advisers of SMHI and are either wholly-owned or partially-owned by TEFG. Employees of some of the Other Advisers may also be Registered Representatives of SMHI, 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. Future employees of Other Advisers may also be Registered Representatives of SMHI. Certain officers and directors of the Other Advisers may also serve as officers and directors of SMHI.

## **Insurance Agency:**

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

Relationships and arrangements with related persons: SMHI Representatives may also be licensed insurance agents for HWG Insurance Agency, Inc., a subsidiary of SMHI. If a client elects to purchase an insurance product through an SMHI 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.

## **Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

SMHI 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, gifts and entertainment, and personal securities trading, among other things. All Representatives and employees at SMHI must acknowledge the terms of the Code of Ethics annually, or as amended. SMHI's Representatives and employees are required to follow SMHI's Code of Ethics.

SMHI's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Leslie Jallans, Chief Compliance Officer.

SMHI anticipates that from time to time, SMHI may recommend and effect the purchase or sale of securities in which SMHI, 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 SMHI and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for SMHI's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of SMHI 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 SMHI 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.

SMHI 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, SMHI or its Representatives may effect transactions in which the client's securities are sold to or bought from an SMHI brokerage customer (i.e., an agency cross transaction). Agency cross transactions are only effected for those clients who have provided written consent. Written consent is obtained only after the client has received full written disclosure that SMHI 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 SMHI. 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 SMHI 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 SMHI 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 the 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, SMHI 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 SMHI 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.

## **Item 12: Brokerage Practices**

### **Client Securities Transactions**

SMHI, its Representatives, and/or third-party portfolio managers, if applicable, will invest and reinvest the securities, cash and/or other investments held in advisory accounts in accordance with client investment objectives, risk tolerance and other information provided by client to SMHI at account opening or in subsequent documentation.

SMHI may perform, among other things, research, brokerage, asset management, and similar services for other clients and receive fees for such services. The advice given and the action taken with respect to such clients may differ from advice given or the timing and nature of action taken with respect to advisory accounts. In managing advisory accounts, SMHI may purchase or sell securities in which SMHI or its Representatives directly or indirectly have or may acquire a position or interest.

Transactions within advisory accounts or in different accounts or for accounts of others with similar investment objectives may occur the same time, on different days, or over multiple days. If the client elects a discretionary account, SMHI and the Representative may utilize average pricing when transactions of the same security occur in the accounts of different clients within a reasonable timeframe.

Clients may impose reasonable restrictions on the management of accounts. SMHI will restrict investment in client accounts subject to any limitations the client may impose in writing. Restrictions imposed by the client on the management of account assets, including any asset allocation percentages or maximums, may cause the Representative to deviate from investment decisions the Representative would otherwise make in managing the account, or the Representative may refuse to manage the account. Client-imposed

restrictions and any changes to restrictions should be evidenced in writing and acknowledged by both the client and the Representative.

SMHI may place securities transactions in its capacity as a broker-dealer. The broker-dealer may receive commissions and fees, including 12b-1 fees from investment companies (mutual funds), for securities recommended by Representatives of SMHI.

Because SMHI may provide the same or similar professional portfolio management services on a discretionary basis to a large number of advisory clients, SMHI will comply with the following guidelines to ensure that each account is separately managed and to make certain that each client receives individually tailored investment advice: (i) Each client's account is managed on the basis of the client's financial situation, investment objectives and instructions; (ii) SMHI obtains sufficient information from the client to be able to provide individualized investment advice; (iii) SMHI personnel are reasonably available to consult with the client when SMHI is the sponsor or the portfolio manager of the account; (iv) The client is permitted to impose reasonable restrictions on the management of the account; (v) The client is provided with at least a quarterly custodial account statement containing a description of all account activity; and (vi) Each client maintains a separate account retaining indicia of ownership of all securities and funds in the account, although client securities may be held in nominee or street name.

Further, each client retains any and all rights afforded under the federal securities laws to proceed directly against the issuer of any underlying security in the client's account. In addition, each client may withdraw, hypothecate, vote, or pledge securities in their account upon written notice to SMHI,

For the managed accounts that are handled on a discretionary basis, with SMHI acting as an attorney-in-fact for the client, the client retains the right to direct SMHI in writing to purchase and or not to purchase certain types of securities for its managed account.

## **Trade Errors**

SMHI uses care in implementing investment decisions of behalf of clients. However, occasionally an error may occur in a client account. To the extent that an error occurs that is unique to the client, SMHI will correct the error as soon as is practical and in such a manner that the effected client incurs no loss. For any errors made by SMHI personnel, the client's account value will be corrected. In the case of an aggregated order, errors will be corrected using the average price provided to all affected clients. The trade error will be settled via the error account. Any gains or losses in this error account will be the responsibility of SMHI.

In the event an error is caused by a broker-dealer or other third-party, SMHI shall take reasonable steps to resolve the error and ensure that effected clients are made whole. However, under no circumstances may a third-party pay costs attributable to a trade error caused by SMHI or any SMHI personnel.

## **Soft Dollars**

Soft Dollars are a means of paying brokerage firms for their services through commission revenue. SMHI does not currently have any soft dollar arrangements. In the event that SMHI wishes to enter into a soft dollar arrangement, the arrangement must be approved in advance by the Chief Compliance Officer, documented in a written agreement, and shall comply with the safe harbor provided by Section 28(e) of the Exchange Act.

## **Item 13: Review of Accounts**

SMHI 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, SMHI 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.

Clients may contact and consult with the Representative that is responsible for the client's account at any time.

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. SMHI 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.

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

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

Similarly, SMHI may enter into solicitation agreements where investors are solicited by another individual or entity and referred to SMHI. In these situations, the individual or entity may be compensated by SMHI 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 SMHI's separate written disclosure document.

## **Item 15: Custody**

Clients should receive at least quarterly statements from the broker-dealer, bank or other qualified custodian that holds and maintains account assets. SMHI urges the client to carefully review such statements and compare the official custodial records to the account statements provided by SMHI. SMHI statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

For FOCUS and MAP, SMHI has an arrangement with Pershing, a member of the New York Stock Exchange, to provide clearance and custody of Accounts. Pershing will (a) maintain custody of all account assets, (b) execute and perform clearance of all purchase and sale orders directed to SMHI, and (c) perform all custodial functions customarily performed with respect to securities brokerage accounts, including but not limited to the crediting of interest and dividends on account assets. Unless otherwise directed by the client, Pershing will forward client account statements as well as confirmation of each purchase and sale to the client. Pershing acts as the general administrator of the account, which will include the charging and collection of account fees on SMHI's behalf and the processing, pursuant to SMHI's instructions, of deposits to and withdrawals from the account. Pershing does not assist clients in selecting SMHI or any investment objective or in determining the suitability. Ownership of all cash, securities and other instruments in an account is retained by the client.

In connection with UMAP, SMHI has entered into an agreement with TD Ameritrade Institutional (as cleared through TD Ameritrade Clearing, Inc.), a division of TD Ameritrade, Inc. ("TD Ameritrade" or "the Custodian"), an unaffiliated broker/dealer, to provide the following services: (a) maintain custody of account assets; (b) execute and perform clearance of all purchase and sale orders as directed by SMHI; (c) perform all custodial functions customarily performed with respect to the account, including but not limited to the crediting of interest and dividends on account assets; (d) forward to client and to SMHI purchase and sale confirmations and account statements; (e) act as general administrator of the UMAP account(s); (f) charge and collect advisory fees on SMHI's behalf; and (g) accept, pursuant to SMHI's instructions, deposits to and withdrawals from the account. The client must agree to the opening of an account with TD Ameritrade as a condition to participate in UMAP.

In certain situations, clients may participate in wrap-fee programs that are not sponsored by SMHI. In those situations, clearance and custody of securities is determined by the program sponsor. Clients should refer to the sponsor's Form ADV Part 2A for complete details regarding those programs.

## **Item 16: Investment Discretion**

When the client grants SMHI investment discretion, SMHI, or a Representative, has the authority to determine, without specific client consent, the securities to be bought or sold, the amount of securities to be bought or sold, the broker or dealer to be used, and the commission rates to be paid. A client's election of a discretionary or non-discretionary relationship is made in the advisory agreement at the outset of the advisory relationship.

Discretion is exercised in a manner consistent with the stated investment objectives for the particular client account. When selecting securities and determining amounts, SMHI observes the investment policies, limitations and restrictions placed by clients on client accounts.

Investment guidelines and restrictions must be provided to SMHI in writing.

## **Item 17: Voting Client Securities**

As a matter of firm policy and practice, SMHI has no authority to take action 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 SMHI. Clients retain the responsibility for voting all proxies for securities maintained in client portfolios.

## **Item 18: Financial Information**

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

## FACTS

### WHAT DOES THE EDELMAN FINANCIAL GROUP DO WITH YOUR PERSONAL INFORMATION?

#### Why?

Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.

#### What?

The types of personal information we collect and share depend on the product or service you have with us. This information can include:

- Social Security number and income
- Assets and investment experience
- Account transactions and risk tolerance
- Income and employment information

When you are *no longer* our customer, we continue to share your information as described in this notice.

#### How?

All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons The Edelman Financial Group chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does The Edelman Financial Group share?	Can you limit this sharing?
<b>For our everyday business purposes</b> —such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No
<b>For our marketing purposes</b> —to offer our products and services to you	Yes	No
<b>For joint marketing with other financial companies</b>	No	We do not share
<b>For our affiliates' everyday business purposes</b> —information about your transactions and experiences	Yes	No
<b>For our affiliates' everyday business purposes</b> —information about your creditworthiness	No	We do not share
<b>For our affiliates to market to you</b>	No	We do not share
<b>For nonaffiliates to market to you</b>	No	We do not share

#### Questions?

Go to [www.edelmanfinancial.com](http://www.edelmanfinancial.com). Call 800-538-0020



Who we are	
<b>Who is providing this notice?</b>	The Edelman Financial Group Inc. and its subsidiaries and affiliates set forth below.
What we do	
<b>How does The Edelman Financial Group protect my personal information?</b>	<p>To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings, as well as:</p> <ul style="list-style-type: none"> <li>▪ information access controls</li> <li>▪ service provider oversight and confidentiality agreements</li> <li>▪ proper disposal of customer information</li> <li>▪ periodic security training for personnel</li> </ul>
<b>How does The Edelman Financial Group collect my personal information?</b>	<p>We collect your personal information, for example, when you</p> <ul style="list-style-type: none"> <li>▪ open an account or seek advice about your investments</li> <li>▪ direct us to buy securities or direct us to sell securities</li> <li>▪ enter into an investment advisory contract or tell us about your investment or retirement portfolio or earnings</li> </ul> <p>We also collect your personal information from others, such as credit bureaus, affiliates, or other companies.</p>
<b>Why can't I limit all sharing?</b>	<p>Federal law gives you the right to limit only</p> <ul style="list-style-type: none"> <li>▪ sharing for affiliates' everyday business purposes—information about your creditworthiness</li> <li>▪ affiliates from using your information to market to you</li> <li>▪ sharing for nonaffiliates to market to you</li> </ul> <p>State laws and individual companies may give you additional rights to limit sharing.</p>
Definitions	
<b>Affiliates</b>	<p>Companies related by common ownership or control. They can be financial and nonfinancial companies.</p> <ul style="list-style-type: none"> <li>▪ <i>Our affiliates include financial companies such as Edelman Financial Services, LLC, financial advisors, such as SMH Capital Advisors, Inc. and GFS Advisors, LLC, broker dealers such as Sanders Morris Harris Inc. and Global Financial Services, Inc., and insurance agencies such as HWG Insurance Agency, Inc.</i></li> </ul>
<b>Nonaffiliates</b>	<p>Companies not related by common ownership or control. They can be financial and nonfinancial companies.</p> <ul style="list-style-type: none"> <li>▪ <i>We do not share with nonaffiliates so they can market to you.</i></li> </ul>
<b>Joint marketing</b>	<p>A formal agreement between nonaffiliated financial companies that together market financial products or services to you.</p> <ul style="list-style-type: none"> <li>▪ <i>We do not jointly market with nonaffiliated companies.</i></li> </ul>

Following is a list of The Edelman Financial Group companies to which this notice applies, as of November 1, 2012:

- |                                    |   |                              |
|------------------------------------|---|------------------------------|
| ○ Cummer/Moyers Financial Services | ○ Investor Financial Solutions, LLC     | ○ Sanders Morris Harris Inc. |
| ○ Global Financial Services, LLC   | ○ Kissinger Financial Services          | ○ SMH Capital Advisors, Inc. |
| ○ GFS Advisors, LLC                | ○ Leonetti & Associates, LLC            | ○ The Dickenson Group, LLC   |
| ○ HWG Insurance Agency Inc.        | ○ Miller-Green Financial Services, Inc. | ○ The Rikoon Group LLC       |

Separate policies may apply to customers of certain businesses, such as Edelman Financial Services, LLC