

## FOCUS

### Asset Management Program Agreement

#### Instructions

This Agreement is entered into by and among Sanders Morris Harris Inc. d/b/a Sanders Morris Harris ("SMHI"), a Texas corporation, registered investment adviser and broker-dealer, the undersigned SMHI Investment Adviser Representative ("Representative") and the undersigned Client ("Client"). The Client hereby retains SMHI and the Representative for the purpose of opening an Account and participating in the FOCUS Asset Management Program ("FOCUS") as described herein.

#### Client Profile

Account Name:		Client Name:			
Address:		Initial Asset Amount:			
SSN/Tax Id Number:		Phone:			
Representative Name:		Representative Number:			
Investment Objective (select one):	Capital Preservation <input type="checkbox"/>	Income <input type="checkbox"/>	Long-Term Growth <input type="checkbox"/>	Short-Term Growth <input type="checkbox"/>	Speculation <input type="checkbox"/>
Corresponding Approximate Downside Risk Tolerance in a one year period (select one):	Less than 10% <input type="checkbox"/>	10-15% <input type="checkbox"/>	15-25% <input type="checkbox"/>	Greater than 25% <input type="checkbox"/>	
If the stock market suddenly lost 25% what action would you take? (select one):	Sell All <input type="checkbox"/>	Sell Half <input type="checkbox"/>	Hold <input type="checkbox"/>	Buy More <input type="checkbox"/>	

#### Terms and Conditions

##### 1. Services

**Investment Program Description.** The FOCUS Asset Management Program is a managed wrap fee account that utilizes the management services of the Representative on either a discretionary or non-discretionary basis. The Representative will provide to the Client investment advisory services, including portfolio reviews and recommendations with respect to various investments, in addition to various administrative services.

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

**Account Minimum.** There is no minimum account size for participation in FOCUS. However, minimum requirements may be imposed by any third party Portfolio Manager selected by the Client.

**Types of Investments.** FOCUS Accounts may hold a broad range of investments including equities and fixed income securities, publicly traded REIT's, exchange traded funds, no load mutual funds or load funds purchased at net asset value ("NAV"), publicly traded closed-end funds, options (limited to covered calls and purchases require option agreement and subject to approval), cash and money market funds.

FOCUS Accounts are ineligible to participate in initial public offerings or IPOs, and/or margin transactions. Illiquid investments such as private placements and non-traded REITs, in addition to investments that include a publicly disclosed selling concession such as underwritten offerings, may be included in an Account for reporting purposes only and shall be excluded for billing purposes. Transactions that cannot be effected without commissions or agency mark-ups, such as certain fixed income instruments, may also be excluded from billing.

**Client Restrictions on Investments.** Client may impose reasonable restrictions on the management of the Account, including designation in the Profile of particular securities that should not be purchased for Client, or that should be sold if held by Client; provided, that Client may not require that particular securities be purchased for the Account. Client understands and acknowledges that any restrictions Client imposes on the management of Account assets, including any asset allocation percentages or maximums that Client imposes, may cause the Representative to deviate from investment decisions the Representative would otherwise make in managing the Account, or exercise the right to refuse to manage the Account. Such restrictions and any changes to restrictions should be evidenced in writing and acknowledged by both Client and Representative.

**Clearance and Custody.** SMHI has an arrangement with Pershing LLC ("Pershing"), a member of the New York Stock Exchange, to provide clearance and custody of Account. 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. Pershing will forward account statements and confirmation of each purchase and sale to Client and may do so electronically if directed by the Client. Pershing will act as 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 in no way assisted Client in selecting SMHI or any investment objective or in determining the suitability of the Program. Client will retain ownership of all cash, securities and other instruments in the Account.

**Sources of Information.** Representative may obtain and utilize information and data from a wide variety of public and private sources when performing certain services described herein. Neither SMHI nor the Representative will independently verify or guarantee such information and data. In categorizing the asset classes of investments, SMHI will rely on prospectuses and information obtained from the issuer, its agents or through publicly available sources. Neither SMHI nor the Representative shall be liable for any misstatement or omission contained in the information from these sources, or any loss, liability, claim, damage or expense, incurred, arising out of, or attributable to such misstatement or omission.

**Account Valuation Methods.** Accounts will be valued by Pershing, who utilizes a third party pricing service. If third party pricing is unavailable, such valuations will be provided on at least a quarterly basis and will be 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 and non-traded REITs included in the Account for reporting purposes only.

**Additions and Withdrawals.** Client may make additions to the Account at any time, subject to federal rules and regulations, in the form of cash or securities, provided that SMHI reserves the right to decline to accept particular securities into the Account or to impose a waiting period before certain securities may be deposited. Neither SMHI nor the Representative is responsible for investing assets either initially or subsequently placed in the Account unless or until written notification is received of their existence in the Account.

Client may make withdrawals from the Account at any time. Client understands that withdrawals which cause material reductions in the value of the Account could cause SMHI to terminate the Account. Client further understands that withdrawal requests are subject to securities settlement procedures. Client further understands that the Account is designed as a long-term investment vehicle and that asset withdrawals may impair the ability to achieve Client's investment objectives.

**Proxy Voting.** SMHI shall not have any obligation or authority to take action or render advice with respect to the voting of proxies solicited by or with respect to issuers of securities held by the Account. Client expressly retains the authority and responsibility for the voting of any such proxies. If the Account is managed by a third party Portfolio Manager, then such Portfolio Manager shall receive all proxies and any related materials and vote on the same.

**2. Fees.** Client authorizes SMHI to deduct fees from the Account. All fees will be noted on Client's account statements.

**Total Program Fee.** 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 this 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 LLC ("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 forward 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, excluding illiquid investments such as private placements and non-traded REITs, investments that include a publicly disclosed selling concession such as underwritten offerings, and any other securities previously designated by Client in writing and follows a blended (or "tiered") schedule where the fee schedule for each breakpoint asset level will be calculated using the relevant formula above and then the fees will be added together to provide a total sum. 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 this Agreement. The effective date is defined as the date when the Account is accepted by SMHI, and the fee will be based on the Account value on that date. The fee calculation will be 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 will be 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 and will become due the following day. In the event this 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, Client must also determine if billing will be based upon either the value of the account on the last day of the previous quarter or average daily account value.

If Client elects to be billed in arrears based on value of the account on the last day of the previous quarter, subsequent quarterly fees will be 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 will become 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 posted at the end of the billing period only. 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 this 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, Client may deposit additional funds by the due date. If no such deposit is made, Client authorizes SMHI to liquidate securities in the Account in amounts sufficient to cover such fees. Client understands that such liquidation may cause Client to incur taxes and other costs. For each addition to or withdrawal from the Account of \$1,000 or more, the Total Program Fee will be adjusted in the next billing period.

**Other Fees and Compensation.** The Total Program Fee does not include any fees charged by the third party Portfolio Manager selected by the client (if any) that may be deducted from the Account by SMHI. The Portfolio Manager Fee, if any, will be reflected as a separate line item on the Client account statement.

Client understands that in addition to the Advisor Fee above, each mutual fund or exchange traded fund in which Client may invest pursuant to this Agreement also bears its own fees, including but not limited to short-term redemption fees, and expenses. Client further understands that other fees, such as SEC fees, individual retirement account (IRA) custodial fees or other taxes as required by law, may be incurred. Client agrees to read the prospectus of each mutual fund purchased in the Account.

Certain mutual funds may be subject to deferred sales charges. The Representative will not purchase such funds in the Account. Further, neither SMHI nor the Representative recommends the transfer of such funds into FOCUS 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.

Certain mutual funds in which Client may invest make payments to broker-dealers 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 Accounts under the FOCUS program, all mutual funds purchases, exchanges, and redemptions will be made at a fund's net asset value (NAV) share price (meaning ex-load). Furthermore, in all ERISA Accounts, 12b-1 fees will be credited back to the Account. In non-ERISA Accounts, SMHI's general practice is to retain 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 FOCUS 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 FOCUS 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 FOCUS over other programs and services.

**3. Amendments.** SMHI may amend this Agreement by modifying or rescinding any of its existing provisions or by adding new provisions. Any such amendment will be effective immediately after SMHI has notified Client in writing of any change or such later date as SMHI may establish unless Client contacts SMHI. If Client believes the amendment is not beneficial, the Client may terminate the Agreement.

**SMHI Changes to Program Administrative Fee.** Client understands and agrees that SMHI may change the Program Administrative Fee at any time by giving 30 days prior written notice to Client. Client further understands that following the 30-day notice period, the new fee schedule will become effective unless Client terminates this Agreement as provided herein.

**Representative Changes to Advisor Fee.** Client understands and agrees that Representative changes to the Advisor Fee portion of the Total Program Fee require written authorization by Client.

**4. Assignment/Termination/Receipt of Written Information.** This Agreement may not be assigned by any party without the consent of all parties, provided that SMHI may transfer its rights and obligations under this Agreement if such transaction does not constitute an "assignment" for purposes of the Investment Advisers Act of 1940 ("Act").

**Termination.** This Agreement may be terminated at any time by either party for any reason upon written notice to the other party. Termination of SMHI's management responsibilities by the Client is effective immediately upon receipt of written notice by SMHI, unless a later date is requested in Client's notice and agreed to by SMHI. Termination by SMHI is effective immediately from the date of written notice to Client, unless a later date is stated in the notice. Client understands that, upon termination by either party, assets will be held in Client's Account, after which SMHI shall not execute further transactions for Client. Client further understands that any liquidation could generate a tax liability for taxable Accounts. SMHI shall use reasonable efforts to execute Client's instructions regarding the transfer of Account.

**Disclosure Statement.** Client acknowledges that SMHI has provided to Client a copy of the FOCUS Asset Management Program Wrap Fee Brochure, also referred to as Appendix 1 of Form ADV Part 2A, and Form ADV Part 2B, as required by Rule 204-3 under the Act. Client shall be responsible for any transactions executed prior to receipt of written notice of cancellation. Appendix 1 of Form ADV Part 2A, Form ADV Part 2B and the SMHI Privacy Policy will be provided at the Account opening and will be offered annually thereafter. Client may authorize SMHI to electronically deliver future versions of disclosure documents. Should Client wish to discontinue electronic delivery at any time in the future, Client may do so by contacting SMHI in writing at the address below or via e-mail to dl-SMHOoperationsHou@smhgroup.com.

**5. Notices.** All written notices to any party under this Agreement shall be sent to such party by hand, first class mail, overnight delivery service, confirmed facsimile transmission, or by certified mail, return receipt requested, at the addresses set forth below, or such other address as such party may designate in writing to the other.

To: Sanders Morris Harris Inc. Attention: Operations Department 600 Travis, Suite 5900 Houston, TX 77002 713-220-5133 FAX	To: Client(s) All written notices to Client(s) will be sent to the then current address of record on the Account
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**6. General Disclosure.** This Agreement represents the entire agreement between the parties as to the management of assets in the Account and, to the extent provided herein, supersedes any prior agreement or understanding of the parties in connection therewith. In the event of any inconsistency or conflict between this Agreement and any terms or provisions of any other agreement between SMHI and Client relating to the Account, the terms and provisions of this Agreement shall control.

If the Client is not an individual (e.g., a corporation, partnership, trust, retirement plan, etc.), the party executing on behalf of the Client (hereinafter referred to as the "Authorized Person") represents that he or she is fully authorized to execute this Agreement with SMHI and to act on behalf of the Client in connection with the services to be provided to the Client under this Agreement. The Client and the Authorized Person agree to provide SMHI upon the request of SMHI any and all additional documentation and agreements necessary to establish the authority of the Authorized Person to act on behalf of the Client. The person signing this Agreement on behalf of the Client represents that it is authorized to act on behalf of the Client in all matters necessary to the establishment of the Account, and this Agreement and all written authorizations granting SMHI discretion in the investment and reinvestment of the Account's assets when executed by Client or on Client's behalf will be binding upon Client in accordance with their terms.

Client hereby represents and warrants that unless Client gives SMHI written notice to the contrary, Client is not and will not be an employee of any securities exchange or a member firm of any securities exchange or of the Financial Industry Regulatory Authority ("FINRA") and no one other than Client who has such an affiliation has or will have a direct or indirect interest in the Account assets.

Client acknowledges and agrees that 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 Client's Account. Client further acknowledges that in managing Client's Account, SMHI may purchase or sell securities in which SMHI or its Representatives directly or indirectly have or may acquire a position or interest.

Client acknowledges that transactions within an Account or in different accounts or for accounts of others with similar investment objectives, may occur at the same time, may occur on different days, and may occur over multiple days. Client further acknowledges that, if the Client elects a discretionary account, SMHI and the Representative may utilize average pricing when transactions of the same security occur in accounts of different clients within a reasonable time frame.

**For ERISA Accounts Only.** If the Account is subject to the provisions of ERISA, Client acknowledges that Client is authorized to exercise control and management of the assets held in the Account. Client represents that Client is capable of making an independent and informed decision concerning the opening and maintenance of the Account. Client represents that the Account and any instructions given by Client regarding the Account are consistent with applicable Plan documents, including any investment policies, guidelines, or restrictions. Client shall notify SMHI promptly in writing of any changes to any of the Plan's investment policies, guidelines, or restrictions, or other Plan documents pertaining to investments by the Plan. Client has the responsibility to give SMHI prompt written notice if any investments made for the Account are inconsistent with such guidelines, policies, restrictions, or instructions.

Client understands that the services that SMHI performs under this Agreement shall have no effect on the assets of the Plan that are not in the Account, and that SMHI has no responsibility for such other assets. SMHI is not acting in the capacity of a Plan fiduciary and shall not be responsible for Plan administration or for performing any other duties that are not expressly set forth in this Agreement. Each party to this Agreement shall obtain and maintain at its own expense any insurance or bonds it deems necessary to cover itself and any of its affiliates, officers, directors, employees, and agents in connection with this Agreement.

**7. Governing Law.** This Agreement shall be governed by and construed under the laws of the State of Texas in a manner consistent with the Act and the rules and regulations of the Securities and Exchange Commission thereunder. The unenforceability or invalidity of any section, paragraph, or provision of this Agreement shall not affect the enforceability or validity of the balance of the Agreement.

**8. Arbitration.** Any controversy or claim between SMHI and the Client arising out of or relating to this Agreement, the Client Account, transactions in the account, or the Client's relationship with SMHI, its affiliates, Representatives, employees, or service providers shall be resolved through arbitration before, and in accordance with the rules of, FINRA Dispute Resolution or any successor dispute resolution forum maintained by the Financial Industry Regulatory Authority ("FINRA"). Any party may initiate arbitration by filing a written claim with FINRA. Any award made by the arbitrator shall be final and binding and judgment on it may be entered in any court having jurisdiction. Any costs, fees, or taxes incurred in enforcing an award shall be fully assessed against and paid by the party resisting enforcement of an award. Client hereby irrevocably submits to the personal jurisdiction of the FINRA arbitration forum. Any claim brought by Client against SMHI or its employees, or by SMHI against Client, may not be joined or consolidated in arbitration with claims brought by or against someone other than Client, unless agreed to in writing by both Client and SMHI. This section shall survive the termination of this Agreement. Nothing in this paragraph shall constitute a waiver or limitation of any right that Client may have under the Advisers Act or any federal or state securities laws.

This agreement contains a pre-dispute arbitration clause. By signing an arbitration agreement the parties agree as follows:

- All parties to this agreement are giving up the right to sue each other in court, including the right to a trial by jury, except as provided by the rules of the arbitration forum in which a claim is filed.
- Arbitration awards are generally final and binding; a party's ability to have a court reverse or modify an arbitration award is very limited.
- The ability of the parties to obtain documents, witness statements and other discovery is generally more limited in arbitration than in court proceedings.
- The panel of arbitrators will typically include a minority of arbitrators who were or are affiliated with the securities industry.
- The arbitrators do not have to explain the reason(s) for their award, unless, in an eligible case, a joint request for an explained decision has been submitted by all parties to the panel at least 20 days prior to the first scheduled hearing date.
- The rules of some arbitration forums may impose time limits for bringing a claim that is ineligible for arbitration may be brought in court.
- The rules of the arbitration forum in which the claim is filed, and any amendments thereto, shall be incorporated into the agreement.
- No person shall bring a putative or certified class action to arbitration, nor seek to enforce any pre-dispute arbitration agreement against any person who has initiated in court a putative class action; or who is a member of a putative class who has not opted out of the class with any respect to any claims encompassed by the putative class action until: (i) the class certification is denied; or (ii) the class is decertified; or (iii) the customer is excluded from the class by court. Such forbearance to enforce an agreement to arbitrate shall not constitute a waiver of any rights under this Agreement except to the extent stated herein.

## Acknowledgements, Agreements and Acceptances

### By signing this Agreement, Client agrees to and confirms the following:

- Client acknowledges having read and understood this Agreement in its entirety.
- Client acknowledges that Client has read the section of this Agreement entitled "Fees" and accepts its terms in the entirety.
- Client acknowledges the receipt of the Wrap Fee Program Brochure for the FOCUS Asset Management Program and Form ADV Part 2B.
- For the investment vehicles that have been selected for FOCUS Accounts, Client acknowledges having received and reviewed the respective prospectus for mutual funds thereto and agrees that the investment vehicles selected match Client's suitability requirements.
- Client acknowledges that Client's signature confirms that Client's relationship with SMHI will be governed by this Agreement and all incorporated disclosures as may be amended from time to time.

**NOTE: THIS AGREEMENT CONTAINS A PRE-DISPUTE ARBITRATION CLAUSE IN SECTION 8 ON PAGE 4. CLIENT ACKNOWLEDGES RECEIVING A COPY OF THIS AGREEMENT, INCLUDING THE PRE-DISPUTE ARBITRATION CLAUSE.**

This Agreement will not take effect until SMHI has accepted the account by signing below.

If more than one, all principals to the Account must sign. If any signatory is a fiduciary, the capacity in which he or she is acting should be indicated. This Agreement may be executed in counterparts which shall be binding on the parties hereto as if executed in one document.

## Signatures

Agreed to by:

Client Signature: \_\_\_\_\_

Client Name and Title (Print): \_\_\_\_\_

Date: \_\_\_\_\_

Representative Signature: \_\_\_\_\_

Representative Name & Title: (Print): \_\_\_\_\_

Date: \_\_\_\_\_

Co-Holder Signature: \_\_\_\_\_

Co-Holder Name and Title (Print): \_\_\_\_\_

Date: \_\_\_\_\_

Supervisor Signature: \_\_\_\_\_

Supervisor Name & Title: (Print): \_\_\_\_\_

Date: \_\_\_\_\_

Accepted by Sanders Morris Harris Inc. d/b/a Sanders Morris Harris:

**HOME OFFICE  
USE ONLY**

Agreed to and Accepted on this \_\_\_\_\_ day of \_\_\_\_\_, for Sanders Morris Harris Inc.

By \_\_\_\_\_ Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Client Authorizations

Please review the authorizations below CAREFULLY and initial where appropriate.

A. Program Type Selection for Non-Third Party Managed Accounts

- Initial here if this is a discretionary Account. The Client grants SMHI limited discretionary trading authority whereby neither SMHI nor the Representative must obtain prior client authorization in order to (a) invest and reinvest Client's assets; (b), modify or change the mix of asset classes and investment securities within said portfolio; or (c) rebalance the portfolio periodically.
- Initial here if this is a non discretionary account. After consultation with Client, and only upon the express consent of Client, Advisor agrees to invest and reinvest securities and cash as Client directs.

B. Program Type Selection for Third Party Managed Accounts

- Initial here if this is a dual contract arrangement utilizing third party Portfolio Manager(s) chosen by Client. The Client directs SMHI to engage the Portfolio Manager(s) chosen by the Client to invest on a discretionary basis the assets in the Account. Client assumes all responsibility for selecting third party Portfolio Managers. Client acknowledges SMHI assumes no responsibility for selection of third party Portfolio Manager(s) or the suitability of investment recommendations made by third party Portfolio Manager(s). Client will forward to SMHI a copy of the investment advisory agreement between Client and Portfolio Manager(s). The minimum Account size will be determined by the Portfolio Manager(s) chosen by Client. The Portfolio Manager(s) may charge additional fees for their services. Each Portfolio Manager will cause purchases and sales of assets to be effected on behalf of the Account pursuant to this agreement. These transactions will generally be executed through SMHI and cleared through Pershing.

Portfolio Manager Name

Investment Strategy

Portfolio Manager Address and Contact Information

C. Fee Methodology Selection (choose one)

- ADVANCE.** Initial here if the FOCUS Total Program fees are to be deducted quarterly in Advance. In Advance indicates fees will be posted at the beginning of the billing period. At account opening, fees will be based on the Account's initial value. Subsequent quarterly fees will be 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. Accounts added to the billing system during the billing period will be charged a pro rata fee as of inception.
- ARREARS BASED ON THE LAST BUSINESS DAY OF THE PREVIOUS QUARTER.** Initial here if the FOCUS Total Program fees are to be deducted quarterly in arrears based on the last business day of the previous quarter. Arrears indicate fees will be posted at the end of the billing period. Accounts added to the billing system during the billing period will be charged a pro rata fee at the end of the period.
- ARREARS BASED ON AVERAGE DAILY BALANCE.** Initial here if the FOCUS Total Program fees are to be deducted quarterly in arrears based on average daily balance. Daily account value is based on the previous market close. Fees are posted at the end of the billing period only. Client acknowledges and understands that any fees calculated under this method are always final, and no adjustments will be made for any billing period.

D. Asset Exclusion for Billing Purposes

- Initial here to exclude the assets described below from management and billing:

Asset Name	Asset Class	Asset CUSIP Number/ Symbol	Reason for Exclusion

## E. Restrictions on Investments

           **Initial here** to restrict the assets described below from trading activity:

[illegible]

## F. Fee Schedule

Initial here to accept fees listed below under "Effective Fees." If left blank, "Standard Fees," shown below will apply.

All fees are listed in basis points. One basis point equals 1/100th of 1% (.01%). One hundred (100) basis points equals one percent (1%).

Standard Fees		Effective Fees				
STANDARD Asset Value of Account	STANDARD Total Program Fee of Asset Value	EFFECTIVE Asset Value of Account	Program Administrative Fee	Advisor Fee	Portfolio Manager(s) Fee (if applicable)	EFFECTIVE Total Program Annual Fee*
On the first \$100,000	300		13			
On the next \$200,000	225		13			
On the next \$200,000	190		13			
On the next \$500,000	170		13			
Above \$1,000,000	Negotiable		13			

\*Total Program Annual Fee as a percentage of Account assets determined on a quarterly basis.

## G. Authorization for Electronic Delivery of Disclosure Documents

Initial here to consent to the electronic delivery of disclosure documents to the e-mail address listed below. This authorization will not impact the delivery of custodial statements and confirmations. Should you wish to establish electronic delivery of those items, please contact your Representative.

E-mail Address:

# SANDERS MORRIS HARRIS<sup>INC.</sup>

## **FOCUS Asset Management Program Wrap Fee Program Brochure**

March 28, 2014

Sanders Morris Harris Inc.  
600 Travis St, Suite 5900  
Houston, TX 77002  
713-224-3100

[www.edelmanfinancial.com/SMH](http://www.edelmanfinancial.com/SMH)

This wrap fee program 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 adviser provide you with information about which you determine to hire or retain an 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).



## **Material Changes**

Since our last annual update on March 27, 2013, this document has been amended as follows:

- Content has been added to describe the Kissinger Managed Asset Program (“K-MAP”) which is offered by Kissinger Financial Services, Inc. (“KFSI”), a Division of SMHI. K-MAP is a discretionary model-based asset allocation and rebalancing program offered within the FOCUS Asset Management Platform.

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Brochure Supplement(s)

## **Services, Fees and Compensation**

### **Services**

FOCUS is a flexible wrap fee advisory program that offers the client the choice of discretionary, non-discretionary, and third-party Portfolio Manager (“Portfolio Manager”) platforms. When a discretionary arrangement is selected, the Representative selects investments and executes transactions without further consultation with the client. In a non-discretionary arrangement, client authorization must be received by the Representative prior to executing transactions. 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 under a separate agreement with the Portfolio Manager.

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

Discretionary or non-discretionary management services in FOCUS are provided by a Representative selected by the client. 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.

In the program, clients’ assets are invested in various securities including equities and fixed income, publicly traded REITs, exchange traded funds, no load mutual funds or load funds purchased at net asset value (“NAV”), publicly traded closed-end funds, options, cash and money market funds. SMHI invests clients’ assets in securities that it deems to be consistent with the client’s stated investment objectives.

### **Kissinger Managed Asset Program**

Within the FOCUS platform, Kissinger Financial Services, Inc. (“KFSI”), a Division of SMHI, offers the Kissinger Managed Asset Program (K-MAP). K-MAP is a discretionary, model-based portfolio allocation and rebalancing program that combines institutional style investing and strategic rebalancing. K-MAP features a variety of portfolio models developed under the K-MAP investment philosophy which is: institutional style investing; an endowment style approach; and a mix of active and passive money management. K-MAP models consist of open-end investment companies (commonly referred to as mutual funds) and exchange-traded funds (ETFs).

KFSI Representatives offer clients asset allocation models that consist of no-load mutual funds and ETFs in a broad range of asset classes and market sectors, including domestic stocks, international stocks, global bonds and other debt instruments. In addition, all portfolio models provide exposure to alternative investments. Alternative investments may include mutual funds or ETFs invested in real estate investment trusts, master limited partnerships, managed futures, commodities, covered calls, long/short strategies and other non-traditional investments.

Each account is invested in the K-MAP model selected by the client based on the client's investment objectives, risk tolerance and preferences. At the inception of an account, K-MAP assets are allocated to specific investment vehicles determined in accordance with set target percentages of total assets in the account. Thereafter, market variations will result in a difference between the amounts allocated to an investment vehicle and will either exceed or fall below the original target allocations. Within K-MAP, the client may select from monthly, quarterly or semi-annual rebalancing. Most accounts adhere to a time and threshold semi-annual rebalance program. Rebalancing will adjust investment vehicle weightings so portfolio risk characteristics align to the model-specific target allocation. This strategy involves rebalancing the portfolio when positions deviate from their target allocations by a set percentage on the scheduled rebalance interval.

Each of the K-MAP models underlying securities are reviewed monthly using various qualitative and quantitative methods. These reviews may result in changes to the asset allocation model, including adding, removing or replacing securities as deemed appropriate. When reallocating, the target percentages of some or all of the investment vehicles relative to the total account may also be changed. Generally, reallocations occur in connection with the selected rebalancing intervals.

## **Fees and Compensation**

### **FOCUS Fees**

Within a FOCUS account, fees are deducted from the account by SMHI and are noted on account statements sent to the client by the custodian.

The Total Program Fee for FOCUS includes the Advisor Fee, which is shared by SMHI and the Representative, and the Program Administrative Fee, which is paid to the sponsor, administrator, 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 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. The Advisor Fee may be discounted at the discretion of the Representative.

The non-negotiable Program Administrative Fee compensates SMHI and Pershing LLC ("Pershing"), the program's custodian, for the cost of execution, clearance and custody, 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 and are 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.

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

## **Payment Method**

Within a FOCUS account, fees are deducted from the account by SMHI and are noted on account statements sent to the client by the custodian. If the account does not maintain sufficient cash or money market balances to cover the Total Program Fee, the client may deposit additional funds by the due date. If no deposit is made, 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.

## **Changes to Fees**

SMHI may change the Program Administrative Fee at any time by giving thirty days prior written notice to the client. Following the 30-day notice period, the new fee schedule will become effective unless the client terminates the FOCUS Agreement. Any changes to the Advisor Fee require written authorization of the client.

## **Other Fees and Compensation**

The Total Program Fee for 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, dealer markups or markdowns in principal transactions by or agency transactions with broker-dealers other than SMHI, American Depository Receipts (ADRs) agency processing fees, odd-lot differentials, SEC and exchange fees and transfer taxes, and any other charges imposed by law.

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

The cost of the services provided through FOCUS 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 FOCUS 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 FOCUS over other programs and services.

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

## **Termination**

Either the client or SMHI may terminate the FOCUS advisory agreement upon thirty days written notice to the counterparty.

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

FOCUS is generally offered to individuals who have a need for fee-based services or could benefit from fee-based pricing over that of a traditional commission-based brokerage arrangement. There is no account minimum to participate in FOCUS, however, minimum requirements may be established by any third-party Portfolio Manager selected by the client.

SMHI primarily provides advisory services to individuals, high net worth individuals, pooled investments, trusts, estates, and corporations and other business entities.

## **Portfolio Manager Selection and Evaluation**

Within FOCUS, the client has the option to establish a dual contract wrap fee account whereby the client directs SMHI to engage the third party Portfolio Manager(s) (“Portfolio Manager”) selected by the client to invest the assets of the account on a discretionary basis. SMHI does not review Portfolio Manager performance information to determine or verify its accuracy or its compliance with presentation standards. SMHI assumes no responsibility for the selection of the Portfolio Manager or the suitability of the recommendations made by Portfolio Manager.

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

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

## **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, need for liquidity, investment objectives and instructions. The Representative works with the client to obtain sufficient information from the client to provide individualized investment advice and is reasonably available to consult with the client on an ongoing basis. Clients are permitted to impose reasonable restrictions on the management of the account.

K-MAP, offered by the Kissinger Financial Services, Inc. Division of SMHI, features a variety of portfolio models developed under the K-MAP investment philosophy which is: institutional style investing; an endowment style approach; and a mix of active and passive money management. Portfolio evaluation methods may include contribution analysis, attribution analysis, value at risk, efficient frontier analysis, and use of correlation matrices. K-MAP strategies are based on several qualitative and



quantitative factors including some specialty situations discussed on an individual basis with clients. Overall strategies are determined primarily on account size, registration, risk tolerance, objective(s), and the desire to focus on income, yield or volatility.

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 and quality expectations 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 the 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.

Some FOCUS accounts, and all K-MAP accounts incorporate allocations to alternative investments, including mutual funds or ETFs invested in real estate investment trusts, master limited partnerships, managed futures, commodities, covered calls, 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, 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.

## **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.

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

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

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

The Representative will contact the client at least annually to determine if any changes have occurred that may affect the ongoing suitability of the investments selected and to determine if any new restrictions should be imposed on the account. If any changes have occurred, the Representative will notify the Portfolio Manager.

## **Client Contact with Portfolio Managers**

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

## **Additional Information**

### **Disciplinary Information**

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

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

SMHI is a subsidiary of Pinnacle Summer Investments Inc.. ("PSI"), 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 PSI. 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 PSI, 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. During 2013, approximately 20% of SMHI's total revenues were from advisory services and fee-based 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 an affiliate of SMHI. 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: EFS is affiliated with SMHI. EFS employees may also be Registered Representatives of SMHI in its capacity as a broker-dealer. Those 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. Additionally, the EFS EMAP program may be solicited by SMHI Representatives. 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 PSI. SMHCA 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. 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 an affiliate of SMHI. 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, and The Rikoon Group, LLC (“Other Advisers”)**

Relationships and arrangements with related persons: Other Advisers are under common ownership with SMHI. 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 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.

**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, rumor mongering, 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 us using the contact information on the cover page.

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 a client according to the client's stated goals and investment objectives. In all instances, the positions would be so small as to have no impact on the pricing or performance of the security.

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

To avoid conflicts of interest, 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.

## **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.

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. Illiquid investments, such as private placements, non-traded REITs, and annuities may be included at the client's election on custodial statements for informational purposes only. Illiquid investments are valued by third parties, such as the issuer or manager of the security. Such values are provided for informational purposes only and are intended to reflect an estimate of the interest in the illiquid investment and the value may not be realized when liquidated.

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

## **Client Referrals and Other Compensation**

From time to time, 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.

## **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.