

## **ITEM 1: COVER PAGE**

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# Disclosure Brochure

*Part 2A of Form ADV*

**March 29, 2017**

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This Brochure provides information about the qualifications and business practices of Semita Asset Management LLC. If you have any questions about the contents of this Brochure, please contact us by telephone at 832.956.1000 or email at [Service@Semita-AM.com](mailto:Service@Semita-AM.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

This Brochure contains information required by regulatory authorities. Semita Asset Management offers a broad range of services. Not all of the information in this Brochure will apply to the services we provide to you.

Additional information about Semita Asset Management LLC also is available at the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search the SEC’s website by a unique identifying number, known as a CRD number. Semita Asset Management’s CRD number is 226757. Semita Asset Management LLC is an SEC registered investment adviser with its principal place of business in Houston, Texas. Registration with the SEC does not imply a certain level of skill or training.

## **ITEM 2: MATERIAL CHANGES**

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This is Semita Asset Management's amended filing of this Form ADV – Part 2A as of March 29, 2017, there are no material changes to the filing of this Form ADV – Part 2A.

In future filings, this section of the Brochure will address only those “material changes” that have been incorporated since our last delivery or posting of this document on the SEC's public disclosure website.

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## **ITEM 4: ADVISORY BUSINESS**

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### **Firm Description**

Semita Asset Management LLC, a Texas limited liability company, (“we” or “us” or “our firm” “our company”) is an investment advisory firm pending registration with the U.S. Securities and Exchange Commission (“SEC”) pursuant to the requirements under the Investment Advisors Act of 1940, as amended. In addition we have filed a notice filing with the state of Texas. Registration with the SEC does not imply a certain level of skill or training.

Semita Asset Management LLC was founded in 2015 by Michael A. Meagher, CFA, its majority owner and Chief Executive Officer. We have one principal place of business located at One Riverway, Suite 2000, Houston, TX 77056.

We offer the following types of services:

- Investment Strategy & Management Services
- Portfolio Management of Separately Managed Accounts
  - Model Portfolios
  - Balanced Portfolios
  - Customized Portfolios
- Selection and Monitoring of Sub-advisory relationships
  - Separately Managed Accounts
  - Alternative Investments / Private Fund Investments
- Limited Financial Planning
- Philanthropic Consulting
- Personal Financial Consulting

As of December 31, 2016, SAM managed approximately 100,000,000 in assets under management on a discretionary basis.

### **Investment Strategy & Management Services**

Our firm provides assistance in developing a customized investment plan for each client. The process begins with identifying a client’s overall investment objective by establishing time horizons as to when their investment assets will be needed. We then recommend an asset allocation intended to meet the objective(s), and modify the recommendation, if necessary, to better align with our client’s tolerance for risk or volatility.

In implementing our client’s investment plan, we will manage our client’s investment portfolio(s) on a discretionary basis. As a discretionary investment adviser, we will have the authority to supervise and manage the portfolio without prior consultation with our client.

Client may impose certain limited restrictions on investing in certain securities, types of asset classes, types of securities, or sectors and industries. The imposition of restrictions or limitations on a portfolio we manage may result in investment performance results and account volatility that could be materially different than that experienced by client accounts without such restrictions or limitations. Such material difference for restricted portfolios may be to the advantage or to the disadvantage of such restricted accounts relative to fully-discretionary or unrestricted accounts

Generally, we develop investment portfolios for our clients utilizing both direct ownership and indirect ownership (i.e., ownership through various pooled investment vehicles such as open-end mutual funds, closed-end mutual funds, exchange traded funds {ETFs}, etc.) in the following types of securities

- Money Market Funds
- Government Securities
- Municipal Bonds
- Corporate Bonds
- Preferred Stocks
- Foreign Issued Bonds
- Separately Accounts  
Managed by Third Party  
Manager(s)
- Common Stocks
- Master Limited Partnerships (MLPs)
- Real Estate Investment Trusts (REITs)
- Foreign Issued Securities
- Commodity Related Securities
- Option Contracts on Securities
- Private Investment Partnerships Issued by  
Third-Party Sponsor(s) / Manager(s)

Our clients may own a wide variety of investment products before engaging us as their investment adviser. Clients may request that we hold these legacy positions for a period of time or even indefinitely. The continued holding of legacy positions in a portfolio we manage may result in investment performance results and account volatility that could be materially different than that experienced by client accounts without such legacy positions or holdings. Such material difference for such portfolios may be to the advantage or to the disadvantage of such accounts relative to fully-discretionary or unrestricted accounts. Normally, we can accommodate such a request to maintain legacy positions. However, we reserve the right to not accept the management responsibility for legacy positions and / or excess restrictions on the accounts we manage.

The specific investment opportunities available for client investments may differ due to the client's investment platform or custodian (e.g., Fidelity Investments, Schwab Institutional, TD Ameritrade, UBS, etc.). Investments that may be available under one platform or custodian may not necessarily be available utilizing another platform or custodian.

## **Portfolio Management**

Through personal discussions with the client in which the client's goals and objectives are established, we determine a strategy for allocating their portfolio across various asset classes and for the use of one or more of our Model Portfolios that is suitable based upon the client's individual circumstances. Specific portfolio recommendations made in an effort to meet the needs of the client and consistent with the client's investment objectives, time horizon, cash withdrawal needs / desires, and tolerance for risk / volatility in account value, among other considerations. Once the client and his or her relationship Investment Strategist agree upon the asset allocation and which Model Portfolios and / or custom securities / portfolios is suitable for the client's account, we manage the client's portfolio on a discretionary basis within those guidelines.

Under certain circumstances, we may customize our Model Portfolios to meet certain client objectives. Therefore, while most client's portfolios are invested to some degree according to one or more of our Model Portfolios, we also create investment strategies that are customized as much as necessary in an effort to meet each client's individual needs. Clients may place certain limited restrictions on the type of investments to be used in their portfolio but these restrictions may affect the type of service we provide or the portfolio available to them (i.e., a customized portfolio may be required to accommodate the client's needs and objectives.)

We offer advisory services utilizing three primary vehicles: 1) the management of accounts held by a singular investor, whether an individual or an investment entity, which we refer to as a separately managed account (“SMA”) 2) the management of sub-advisory accounts on behalf of our clients (“SAA”), and 3) the recommendation to use private investment funds or Alternative Investments sponsored by and / or managed by third party advisers.

### **Separately-Managed Accounts (“SMA”)**

To meet the investment needs and objectives of our clients, we may manage individually-owned accounts custodied at third-party brokerage firms or trust companies in a number of ways.

For most individual clients, we provide more extensive services by managing the entirety of an investment portfolio across multiple asset allocations; such as government bonds, corporate bonds, high yield bonds, municipal bonds, preferred stocks, master limited partnerships and real estate investment trusts emerging markets, commodity funds or exchange traded funds (“ETFs”) meant to achieve a “balanced” portfolio.

For some clients, we may manage only one type of asset class within their larger portfolio. For example, a client may have a diversified account over which we may only exercise discretionary authority over large-cap equities.

Client goals and objectives are assessed individually and are defined by expected time horizon, potential rate of return expectations, tolerance for expected volatility, and asset diversification goals subject to clients’ reasonable limitations or restrictions.

Our firm provides investment management services to clients primarily utilizing our Model Portfolios for certain asset classes generally in proportion to the recommended asset allocation for each client. Our Model Portfolios are described in detail in *Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss*.

### **Sub-Advisory Accounts (“SAA”)**

When appropriate, we may from time-to-time enter into sub-advisory accounts for separately managed account(s) with other registered investment advisers. Such SAAs are normally established to fulfill specific asset class mandates required in our efforts to meet our client’s goals and objectives. The utilization of SAAs occurs most often with high net worth clients who have portfolios in excess of five million dollars and who also engage the custodian services of a firm that offers such third party sub-advisory services to its clients. We will periodically either perform due diligence reviews or review due diligence reports provided on the sub-advisory firm. We will maintain executed agreements for these arrangements on file for review by and presentation to our SAA clients.

With SAAs, we do not make individual security selection decisions in the sub-advised account. We do select and recommend one or more managers that we believe are appropriate for the client’s needs and objectives. Then the SAA manager buys and sells securities over time as they manage the account directly on the client’s behalf. We monitor the investment account, but not to the degree that we would monitor investments in accounts that we directly manage. We review the SAA manager’s reports and perform periodic due diligence on the SAA manager

The fee schedules and account minimums vary by sub-advisor. Such sub-advisory fees may be negotiated with the sub-advisor from time-to-time by us. Sub-advised accounts may have one of three different advisory fee arrangements:

- **Additional Fees Paid to Sub-Adviser** - Normally, when clients are advised by our firm to utilize the advisory services of a third-party sub-advisor, clients may be charged fees directly by the sub-advisor as mutually agreed in their respective investment advisory agreements. Any fee paid to us is usually separate from and in addition to the fees paid to the SAA manager.
- **Wrap Fees** - Under other arrangements with SAA managers, a Wrap Fee arrangement is utilized. A Wrap Program is one that charges one fee (the “wrap fee”) for both the SAA manager’s fee and the transaction expenses by the SAA account. Any fee paid to us is usually separate from and in addition to the Wrap Fee paid to the SAA manager.
- **Inclusive Fee Arrangement** - Under these agreements with some SAA managers, a portion of the advisory fees paid to us may be shared with the sub-advisor(s). Any fee paid to the SAA manager is deducted from the fees paid to us by the client.

When such sub-advisory arrangements are made, the sub-advisory arrangement will be disclosed by us to clients by delivery of the Form ADV Part 2A for us and the sub-advisory firm and the investment advisory agreement for the SAA account.

Any such recommendation by us may constitute a conflict of interest. To address this conflict, we provide full disclosure to such client of our relationship with and compensation from such third-party sub-advisory firm and / or investment manager. For a full description of the services offered by a sub-advisory manager we select and recommend, clients should refer to that sub-advisor’s Firm Brochure, advisory contract, and other disclosure documents. We are available to meet with clients, as determined by the client, to review the sub-advised accounts and our most recent due diligence findings.

## **Alternative Investments (Private Fund Investments)**

We may from time-to-time recommend that our client invest in the private funds (i.e., “Alternative Investments”) sponsored and / or managed by a third-party adviser. These Alternative Investments may include investments in oil & gas ventures, real estate ventures, specific sector or industry related investments, commodities, structured securities, litigation or bankruptcy dispute resolution, medical royalties, various private equity investments, and “fund of funds” of such alternative investments, among other private investments. Any such recommendation by us may constitute a conflict of interest. To address this conflict, we provide full disclosure to such client of our relationship with and compensation from such third-party sponsor and / or investment manager. Additionally, when clients are advised by our firm to make investments in private investment funds, clients are charged fees directly by the private investment fund as mutually agreed in their respective partnership or investment advisory agreements. We do not assess additional investment advisory fees beyond those allowed by and charged by the private fund’s partnership agreement.

Alternative Investments have different investment characteristics than publicly-traded investments. Such different characteristics include, but are not limited to, minimum investment requirements, investor suitability, restricted or no liquidity, and full transparency into the Alternative Investment’s holdings on a timely basis. Alternative investments do not have the same regulatory reporting requirements, valuation standards, marketability, and regulatory oversight as publicly-traded investments and, as a result, are generally considered to have an elevated degree of risk as compared to publicly-traded investments.

We are available to meet with clients, as determined by the client, to review the Alternative Investments and our most recent due diligence findings.

## **Financial Planning**

We provide limited financial planning services to our clients whereby we assess the current and estimated future financial situation by using currently known information about the client and certain assumptions about the future. A planning engagement normally includes gathering information from the client in order to project items such as future cash flows, taxes, asset values, account withdrawal needs / desires, among other items. Through the financial planning process, a client's questions, information and analysis are considered in the context of the client's overall financial situation and life goals. Clients receive a written report that includes a proposed plan designed to provide financial guidance to them in their pursuit of their financial goals and objectives.

A financial plan may address any or all of the following:

- Financial goals
- Cash Flow
- Insurance Needs
- Retirement Planning
- Education Planning
- Personal Net Worth
- Tax Planning
- Estate Analysis
- Portfolio Review
- Charitable Giving

The scope of, and any fees associated with, our financial planning services will be based upon a mutually-agreed written financial planning services agreement with the client.

Our firm does not provide any tax advice or legal services that may result from the financial planning report and recommendations.

## **Philanthropic Consulting**

Our clients may wish to develop personal charitable giving plans. We will advise on different charitable giving strategies which may include the use of donor-advised funds, trusts, and estate bequeaths, and / or tax advantageous techniques.

## **Personal Financial Consulting**

To meet the unique needs of our clients, our firm may offer finance-related consulting services and recommendations not described in this brochure.

## **Publications of Periodicals and Educational Seminars**

Our firm may publish from time to time newsletters, position papers, or articles and may host educational seminars providing general information on various financial topics including, but not limited to, financial planning, estate and retirement planning, market conditions and trends, our market forecast or outlook, etc. These publications and seminars and the information provided therein are not intended to meet the objectives or needs of any specific individual or client. Our publications are distributed and attendance at our seminars are free of charge.



## **Other Advisory Business Related Comments**

- **Individualized Service** - The investment services received by one client may vary from the services received by another clients. Factors such as client's time horizon, investment objectives, tolerance for volatility or risk, account size, and other client assets owned, tax issues, among other factors, will affect the services and recommendations received and fees charged.
- **Broader Financial Advice** - Some clients may engage us to give advice on broader financial issues (e.g., investments "held away" or outside the account(s) we manage on client's behalf, employer-sponsored retirement plans, real estate, alternative investments, personal financial matters, etc., etc.) If we provide advice about these assets or issues, clients should realize that the information available to us and your financial advisor may be limited; and, therefore, our or his / her recommendations may not be formed on the basis of all information that should be considered.

## **ITEM 5: FEES AND COMPENSATION**

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### **Compensation / Advisory Fees**

Our primary source of revenue is derived from advisory fees based upon the amount of assets under management. We generally charges advisory fees on separately managed accounts ("SMA") based on the following fee schedules:

#### ***Equity Oriented and Balanced (including Fixed Income allocations) Accounts:***

<b>Market Value of SMA Portfolio<sup>(1)</sup></b>	<b>SMA Advisory Fee Annual Rate Schedule</b>
\$100,000 - \$500,000	1.25%
Next \$ 1,500,000	1.00%
Next \$ 3,000,000	0.85%
Next \$ 5,000,000	0.75%
Greater than \$10,000,000	0.65%

#### ***Fixed Income Accounts:***

<b>Market Value of SMA Portfolio<sup>(1)</sup></b>	<b>SMA Advisory Fee Annual Rate Schedule</b>
\$100,000 - \$500,000	0.75%

Next \$ 1,500,000	0.65%
Next \$ 3,000,000	0.50%
Next \$ 5,000,000	0.40%
Greater than \$10,000,000	0.30%

The fees charged to clients and fee payment arrangements may vary from the above schedules due to such negotiated fee arrangement and to the timing and circumstances under which the client initially engaged the firm's services inasmuch as our firm has clients that have engaged our services over time under various forms of investment advisory arrangements and agreements. Additionally, our firm has accepted the assignment of investment advisory agreements which had different fee arrangements, fee schedules and agreements. Similarly, the fees charged associated persons or their family members, and employees and their family members may be lower than fees offered to other clients, or no fee may be charged at all.

***Advisory Fee Calculations:***

- **Frequency** - Advisory fees are typically paid quarterly, in advance.
- **Basis** – Advisory fees are calculated as a percentage of the quarter-end valuation of the client's portfolio, as determined by the account's custodian, for the quarterly period ending immediately prior to the calculation of the account's upcoming fee. For example: for a \$1,500,000 equity oriented account, the fee calculation would be:

Asset Values	Annual Fee Basis	Annual Advisory Fee
First \$ 500,000	1.25%	\$ 6,250
Next \$1,000,000	1.00%	<u>\$10,000</u>
	<b>Total Annual Fee</b>	<b>\$16,250</b>

- **Aggregation** - We normally aggregate clients' assets under management when clients retain us to manage multiple portfolios. The aggregation of account values will be completed for the determination of investment advisory fee breakpoints as outlined in the Fee Schedules listed above.

***Advisory Fee Payments:***

- **Deductions from Client's Account** – We deduct our Advisory Fees directly from our client's account with their custodian / brokerage firm.
- **Termination of Account** - In the event a client terminates during the middle of a billing period, we will reimburse any unearned fees to which the client is entitled based upon a daily prorated fee for the time period the account was under our supervision. This unearned fee reimbursement will be processed and paid back to the client's account within two (2) weeks of our receipt of client's written termination notice.

Our investment advisory fees and our fee payment arrangements are negotiable based upon various facts involving the account(s) and the management of the account(s) [e.g., size of account, efficiency of the investment strategy, operating efficiency with the custodian, among other factors.]

## **Additional Fees**

In addition to our advisory fees noted above, clients may incur the following fees or expenses in connection with their investment activities:

- **Brokerage Commission and Custodian Charges:** Our advisory fee does not include transaction costs (e.g., brokerage commissions and custodian fees and charges) incurred by the client's account or other direct out-of-pocket costs incurred by us as a result of providing the investment services. Clients may incur certain charges imposed by custodians, brokers, and other third parties such as fees charged by managers, custodial fees, administrative settlement fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund transfer fees, and taxes on brokerage and securities transactions. Brokerage commissions and fees are charged by and paid to the client's brokerage/custodian firm. These charges and fees are usually deducted from the client's account in association with certain investment transactions or on a recurring time basis. Such fees and charges are disclosed on the brokerage/custodian firm's statements delivered to the client.
- **Investment Interest Expenses:** Clients that have margin or line of credit agreements for their accounts with their brokerage/custodian firm may incur investment interest expense charges. Such expenses and charges will be incurred if or when the client account is temporarily out of balance or overdrawn due to the timing of trade settlements. Furthermore, when pre-approved by the client, a client will incur investment interest expense charges when leveraging or borrowing additional funds against their investment assets. Investment interest expenses and fees, if or when incurred, are charged by and paid to the client's brokerage/custodian firm. These charges and fees are usually deducted from the client's account on a recurring time basis. Such investment interest expense fees and charges are disclosed on the brokerage/custodian firm's statement delivered to the client.
- **Investment Companies' or Pooled Investment Securities fees:** Investment companies (e.g. open-end mutual funds, money market funds, or closed-end mutual funds) and other pooled investment vehicles (e.g., ETFs) typically charge investment management fees and other expenses to their investors. These charges and fees are usually deducted on a recurring time basis from the investor's asset base invested with the respective fund. The fees and expenses generally are disclosed in the applicable fund's prospectus and in their periodic financial reports to shareholders of the fund. When these funds are selected for client accounts, the client will bear a proportionate share of those fees and expenses as a shareholder of those funds. Investment management fees and other such expenses are charged by and paid to the investment company or pooled investment fund. Such fees are exclusive of and in addition to our advisory fee. We not receive any portion of these fund commission, fees or costs.
- **Fees associated with Sub-Advised SMAs:** In some client specific circumstances, we may enter into sub-advisory agreements for SMAs with other registered investment advisers for the benefit of that specific client. Such sub-advisory agreements are normally established to fulfill specific asset class objectives required by the respective client in their statement of goals and objectives. Under these agreements, a portion of the advisory fees paid to us will be shared with the sub-advisors. Under other arrangements with SAA managers, a Wrap Fee arrangement is utilized. A Wrap Program is one that charges one fee (the "wrap fee") for both the SSA manager's fee and the transaction expenses by the SAA account. Any fee paid to us is usually separate from and in addition to the Wrap Fee paid to the SAA manager.

The fee schedules and account minimums vary by sub-advisor. Such sub-advisory fees may be negotiated with the sub-advisor from time-to-time by us. When such sub-advisory arrangements are made, the sub-advisory arrangement will be disclosed by us to clients by delivery of our and the applicable sub-advisory firm's Form ADV Part 2.

- **Additional Financial Consulting Fees:** On a pre-approved, negotiated basis, clients may incur additional fees for broader based financial advice, which may include but is not limited to: cash flow planning to meet future needs/goals; retirement planning; investment planning; college planning; and mortgage/debt planning. These services will be based on fixed fees or hourly fees, and the final fee structure will be documented in any contract for such services.
  - Fixed Fee: Depending upon the complexity of the situation and the needs of the client, our rate for creating longer-term financial and cash flow plans for a client begins at \$1,500. Fees are paid in arrears upon completion of the engagement. The fees are negotiable and the final fee schedule will be documented in any contract for such services. Clients may terminate their contracts without penalty, for full refund, within five (5) business days of signing the service contract.
  - Hourly Fee: Depending upon the complexity of the situation and the needs of the client, the hourly fee for these services is \$75 - \$250. The fees are negotiable and the final fee schedule will be documented in any contract for such services. Fees are paid in arrears upon completion. Clients may terminate their contracts without penalty, for full refund, within five (5) business days of signing the service contract.
- **Expense Reimbursement:** Clients may also incur charges for any and all costs and expenses (including taxes) incurred by us as a result of providing investment management services to our clients.

## **ITEM 6: PERFORMANCE-BASED FEES & SIDE-BY-SIDE MANAGEMENT**

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### **Performance-Based Fees**

We do not charge performance-based advisory fees inasmuch as performance-based fees may result in conflicts of interest that we and our investment decision making personnel might face by managing performance-based fee accounts at the same time we manage non-performance-based fee accounts. Such fee arrangements could provide us and our investment decision making personnel an incentive to favor accounts with performance-based fees.

## **ITEM 7: TYPES OF CLIENTS**

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As previously identified, our client base is comprised of SMAs and SAAs. We accept management agreements from any of the following types of clients:

- individuals,
- high net worth individuals,
- trusts,
- retirement accounts such as IRAs, 401(k)s, pension and profit sharing plans,
- charitable organizations,
- foundations,
- endowments,
- partnerships, and

- corporations.

Depending upon the type of account or investment we manage for the benefit of a client, account minimums generally begin at \$100,000. We may, in our sole discretion, choose to waive such minimum account value requirements.

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

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### **Understanding Goals and Objectives**

We invest client's accounts in accordance with our understanding of client's goals and objectives. We attempt to find investment solutions that contribute to the progress towards meeting or achieving those goals and objectives with consideration given to the client's tolerance for risk or volatility and desire or need for a potential level of investment return.

### **Forecasting Economic and Financial Markets**

Our review of economic and financial history leads us to conclude that it is difficult to predict or forecast the financial market movements and actual future investment results. Recognizing that the future is uncertain for our firm and for our clients, we have adopted an investment philosophy that:

- utilizes economic and financial factors and principles in an attempt to assist our clients meet designated goals over time, and
- incorporates investment strategies and portfolio investment decisions with our investment philosophy founded upon delivering trusted and professional financial advice utilizing biblical principles and wisdom.

### **Investment Philosophy**

Our investment philosophy is founded upon and incorporates the beliefs and principles that our leadership team has adopted based upon years of investment experience and, specifically, their certification training from Kingdom Advisors® and communications within its network of financial advisors. Our core beliefs include the following:

- **Uncertainty** - The world, our country, and the financial markets are not chaotic, but indeed are uncertain. This reasonable belief can lead us to reduce our exposure to high-risk environments and portfolios. Embracing this belief does not eliminate risk or volatility, but it can improve the chance for successful outcomes for our clients.
- **Limited Forecasting Ability** - Our belief in uncertainty and instability leads us to accept our limited abilities to know the future and to predict the moods of the economy and / or the financial markets. This limited ability to know the future leads us to strongly advise our client to depend upon their conservative personal financial spending and steadfast investing behavior and to rely on effective portfolio diversification incorporating multiple asset classes with plausibly low correlation to other asset classes used in the investment portfolio.
- **Value Creation** - We believe that the source of wealth creation rests with our and our leaders' stewardship. Stewardship includes our individual abilities to be productive as well as our

leadership's [e.g., governmental leaders' and corporate leaders'] ability to be protective of and productive with the assets with which we have been entrusted. The manner in which leaders, governmental, corporate, etc., govern significantly impacts productivity of the people they lead within the economy or within the company. We believe economies with greater civil and economic freedom and fair and enforced legal systems tend to provide more fertile ground for economic growth and investments due to their increased human productivity. Likewise, we believe that companies that are managed in an environment where proper stewardship of the company's assets [e.g. human capital, invested capital, community, etc.] is emphasized eventually result in higher levels of capital productivity and, therefore, of wealth creation.

- **Valuations** – We believe that the foundation of an investment selection decision should be based upon valuation to improve the prospect of future financial gains. Current and future prices should be tested to understand potential future valuation risks versus current valuation levels. In doing so, we believe we improve our prospects of achieving our objectives for such investments and for our clients' accounts. We believe that the financial markets are not always rational. We believe that investors' eagerness for gain, or fear of loss, can motivate investors into market bubbles and market crashes. We strive to exercise disciplined valuation processes in order to recognize and take advantage of opportunities created by such over eagerness or excess fear whether the irrationality be created in the overall financial market, in certain sectors or assets classes, or in individual investment securities.

As a result of implementing our investment philosophy our mission statement incorporates the following values:

- **Stewardship** – We intend to demonstrate and model good stewardship in investing the assets we been entrusted to protect and manage for our clients. In so doing, we also coach and advise our clients as how to be good stewards of the assets and blessings that they have and continue to receive;
- **Contentment** – We intend to educate our clients and assist them in determining “how much is enough” regarding the financial assets and needs. Importantly, by implementing a disciplined, diversified approach with their investment portfolios, we intend to target a range of account value volatility that will allow our clients to be content; content with their objective goals and achievement of their ultimate targets as well as content with their long-term investment strategy being a stabilizing factor throughout the up and down economic and market cycles that come and go.
- **Generosity** – Once we have been good stewards with all the assets to which we have been entrusted and our level of contentment is higher, we intend to assist our clients in exercising generosity with the assets and blessings they have accumulated. We will coach and advise our clients on various approaches to philanthropic giving that should continue to pay intangible dividends to the beneficiaries, to our like-minded community, and to them for generations to come.

We have incorporated these three tenets into our statement of values:

*Stewardship. Contentment. Generosity.*

## **Methods of Analysis**

- **Resources and Analytical Tools** - In addition to incorporating our Investment Philosophy into our decision making process, we also use investment industry tools to evaluate specific investments and sub-advisory managers that we recommend to clients. We utilize investment data bases and

analytical tools and research services to assist us in executing our disciplined investment approach. We consider the economic and investment views of other financial professionals, such as economist, market strategist, Wall Street analysts, separate account managers, mutual fund managers, and other such sources to gain additional insight for our investment decision making process. We may utilize the investment services and advice of other investment professionals, such as the brokerage / custodian firms with which are clients are doing business or independent research services, to assist in our research process and / or the constructing / rebalancing / optimizing client portfolios, when appropriate. We also rely on financial newspapers, professional journals, and other publications to assist us in developing our investment strategies and individual security selection decisions.

In selecting securities for our Model Portfolios and for our client's account, we favor those that we believe most closely adhere to our Investment Philosophy as outlined above. In formulating our investment advice and / or managing our client portfolios, our security analysis includes various combinations of fundamental analysis, technical analysis, cyclical analysis, quantitative analysis, qualitative analysis, mutual fund and / or EFT analysis, and third party sub-advisory firm analysis.

The type of analysis used for specific investment will vary. For example, the analysis of a recommended mutual fund, ETF, or sub-advisory account would entail different research and analytics than would the evaluation of a general asset class such as large capitalization common stock.

In analyzing and managing our common stock or equity portfolios, we generally incorporate some or all of the following methods of analysis and portfolio construction:

- **Fundamental Research** – Our fundamental financial analysis and review process includes:
  - Evaluating the integrity of the accounting statements;
  - Converting generally accepted accounting principles (“GAAP”) financial statements into economic accounting statements;
  - Evaluating various financial metrics and ratios that contribute to cash flow return on invested capital to identify companies that have high returns or significantly improving returns on their invested capital;
  - Identifying “great businesses to own” for client portfolios based upon the results of the fundamental review; and,
  - Utilizing a broad spectrum of information, including financial publications, third-party research materials and systems, regulatory filings, company press releases, industry reports and periodicals, and corporate rating services.
- **Valuation** – Our valuation process seeks to evaluate the fair or intrinsic valuation of companies' common shares by:
  - Evaluating the value of the entire company based upon:
    - Cash flow forecasts for the company;
    - Identifying companies that are currently trading at significant discounted prices relative to their perceived fair or intrinsic value; and,
    - Evaluating this discounted cash flow valuation methodology's accuracy in estimating the actual market prices paid for the company's common shares in the past.

- **Timing / Technical Data** - Our final analytical step in making common stock investing decisions typically involves the use of technical analysis to seek confirmation that the time is likely more favorable to buy or continue to own the security. We review a common stock's price behavior by evaluating on a combined or collective basis its:
  - Relative strength – the price trend that indicates how a stock is performing relative to other stocks in its industry over a given time period; and,
  - Price momentum - the rate of acceleration of a security's price over a given time period.
- **Portfolio Risk Controls** – We apply portfolio mandates and several portfolio controls in an effort to manage risks in our Cornerstone Portfolio through the following principles:
  - Market Exposure – The Cornerstone Portfolio typically will only temporarily own more than five percent (5%) money market funds in reserve. Therefore, the Cornerstone Portfolio remains fully invested throughout all phases of a market cycle.
  - Initial Purchase Position Size– The Cornerstone Portfolio will normally own between forty and fifty (40 – 50) different common stocks. Therefore, normal positions size at the time of purchase is two percent (2%) but may range from one percent to three percent (1% - 3%) of the common stock portfolio's value.
  - Maximum Position Size - At the time of purchase, the Cornerstone Portfolio generally will invest no more than five percent (5%) in any one common stock. Once in the portfolio, common stock positions will be reduced on a timely basis as it becomes eight percent (8%) or greater of the common stock portfolio's total value.
  - Economic Sectors – The Cornerstone Portfolio will only temporarily allow the portfolio's economic sector weighting to vary outside the following ranges:
    - Large Economic Sectors (Energy, Consumer Discretionary, Consumer Staples, Industrials, Health Care, Information Technology, Financial) – At the time of purchase, the Cornerstone Portfolio will typically invest no less than fifty percent (50%) but no more than one hundred fifty percent (150%) in stocks in the larger economic sectors, as defined by the Standard and Poor Corporation.
    - Small Economic Sectors (Basic Materials, Telecommunication Services, Utilities) – At the time of purchase, the Cornerstone Portfolio will invest no more than two hundred percent (200%) in stocks in the smaller economic sectors, as defined by the Standard and Poor Corporation. At times, the Cornerstone Portfolio may not own any positions in these smaller economic sectors.

We currently manage the following Model Portfolios:

### ***Cornerstone Portfolio***

The investment objective of the Cornerstone Portfolio is to exceed the return of the S&P 500 over a full market cycle with a similar risk profile. This long-only approach is intended to provide a solid foundation for a diversified common stock portfolio. The Cornerstone Portfolio is managed as a separate account and typically owns approximately 40 - 50 large capitalization, U.S.-based securities from multiple economic sectors of the market. Client portfolios following the Cornerstone Portfolio tend to be fully invested during all phases of a market cycle. Portfolio turnover is monitored to address tax efficiency.



### ***Concentrated Cornerstone Portfolio***

The investment objective of the Concentrated Cornerstone Portfolio is to increase principal value. This long-only approach is focused on absolute performance with a higher risk profile than the overall market. The Concentrated Cornerstone Portfolio does not necessarily expect to outperform specific benchmark indexes. The Concentrated Cornerstone Portfolio is managed as a separate account and typically owns approximately 15 - 30 stocks that we believe represent attractive value and timely near-term price appreciation prospects from the list of 40 - 50 large capitalization, U.S.-based securities owned in the Cornerstone Portfolio. Cash reserves invested in money market funds or other cash equivalent investment are allowed to rise and fall when/as our perception of common stock investment opportunities fluctuates. Due to the number of holdings in the Concentrated Cornerstone Portfolio, the portfolio tends to be more concentrated, or focused, with investment allocations to individual securities and to major economic sectors of the market than the Cornerstone Portfolio. Portfolio turnover generally is more active than in the Cornerstone Portfolio.

### ***Tactical Growth and Income Portfolio***

The investment objective of the Tactical Growth and Income Portfolio (“TGI”) is to grow principal value and to generate a slightly higher stream of income for investors. This long-only approach is focused more on absolute performance with a slightly lower risk profile than the overall market. TGI does not necessarily expect to outperform specific benchmark indexes. TGI is managed as a separate account and typically owns approximately 15 - 30 common stocks that represent compelling value and timely near term price appreciation prospects from the list of 40 - 50 large capitalization, U.S.-based stocks already owned in the Cornerstone Portfolio. In addition, TGI will invest in other income producing asset classes such as preferred stocks, bonds, real estate investment trusts (“REITs”) and publicly-traded master limited partnerships (“MLPs”) may be utilized. Due to the number of holdings and the use of industry-focused asset classes (e.g., REITs and MLPs) in the Tactical Growth and Income Portfolio, the portfolio tends to be more concentrated or focused with investment allocations to individual securities and to major economic sectors of the market than the Cornerstone Portfolio. Portfolio turnover generally is more active than in the Cornerstone Portfolio.

### ***Focused Long Duration Portfolio***

The investment objective of the Focused Long Duration Portfolio (“FLD”) is to achieve capital appreciation with low portfolio turnover with greater preference for tax efficiency. The portfolios will own between 15-30 common stocks which will have the goal of being held through one complete market cycle (~5 years). These portfolios seek to invest in companies with high return on invested capital, strong balance sheets, demonstrate high cash flow growth, and that have ample opportunity to reinvest its cash flow in attractive business opportunities going forward.

### ***Fixed Income Accounts***

We also manage Fixed Income Accounts for clients, when necessary, to meet specific client fixed income objectives and goals that are not readily met by any other investment products, or combination thereof, listed above. Fixed Income Accounts may include a greater use of corporate bonds, municipal bonds, preferred stock as well as open-end or closed-end mutual funds and exchange traded funds [ETFs] with higher income generation characteristics.

### ***Balanced Accounts***

We manage Balanced Accounts for clients based upon their specific investment objectives, goals and guidelines. Balanced Accounts typically combine multi-asset classes, such as stocks and bonds, in one portfolio. Various investment asset classes are combined in an effort to target forecasted or potential rate of return, volatility or risks, and dividend and interest income cash flow for the portfolio.

### ***Advisory Accounts***

We manage Advisory Accounts for clients, when necessary, in an effort to meet specific client objectives and goals that are not readily met by any if any of our Model Portfolios listed above, or combination thereof, Advisory Accounts may include a greater use of investment company securities (e.g., mutual funds), exchange traded funds, or sub-advised investment accounts for our clients.

## **Investment Discipline**

Our objective is to maintain a consistent process regardless of market conditions. We have found that the biggest impediment to long-term, above-average performance is the tendency of investors, even professional money managers, to change their approach based upon changing market conditions. This is not the way we operate. We utilize a style that, we believe, works over the long term. We seek to implement this disciplined approach regardless of the short-term market circumstances and nuances. We are committed to maintaining our focus as we strive for consistency.

Our investment selection process for common stock investing is to identify excellent businesses that demonstrate competitive positions. Once identified, we identify stock prices that reflect reasonable valuations compared to their expected cash flows, growth of cash flow, and use of invested capital. Our belief is that long-term success in the equity markets is achieved by investing in well-managed businesses that dominate their markets, as long as those investments are purchased at prices that are appropriate given the company's business fundamentals and prospects.

We assist clients in defining and articulating their goals, objectives, and restrictions or limitations for their investment portfolio. As a result of defining the goals and objectives, we assist clients in establishing an investment strategy. Investment strategy includes plans regarding:

- Asset Classes – The types of securities (e.g., common stocks, bonds, tax exempt bonds, real estate investment trusts, master limited partnerships, emerging markets investments, commodity oriented funds and ETFs, sub-advised accounts, private funds, etc.) that will be utilized in the investment portfolio;
- Asset Allocation – The planned asset class mix or targeted range for each asset class expressed as a percentage of the client's portfolio (e.g., 60% - 75% common stocks);
- Common Stock Investment Strategy – Determining which of our common stock model portfolios (see portfolio descriptions in the Advisory Services section) to incorporate into the client's portfolio, if appropriate; and,
- To assist clients in finalizing an investment strategy or policy statement, we review and consider various factors, such as:
  - Client's investment time horizon for the investment assets,

- Client's financial ability and emotional willingness to incur financial losses,
- Client's need to generate cash flow to meet particular objectives,
- Client's longer-term goals and objectives such as longer-term withdrawal needs or targeted account value goals, and
- Historical results and prospective outlook for the rate of return and volatility of the asset classes selected for use in the client's portfolio.

Many clients independently develop investment strategies, goals and objectives for the investment assets entrusted to us. In such cases, we will confer with our client to confirm that the client's planned investment strategy is consistent with their own stated goals and objectives and with our historical review and prospective view of investment markets.

## **Risk of Loss**

Investment markets do fluctuate and do so substantially from time to time. Importantly, historical global and domestic economic events have confirmed that the investment performance of any investment is not guaranteed. As a result, there is a risk of loss of the assets we manage that may be out of our control. We will do our best in the management of your assets. However, we cannot guarantee any level of performance or that you will not experience a loss of your account assets. Investing in securities involves risk of loss that clients should be prepared to bear.

## **Common Stocks**

Common stocks are securities that represent ownership in a corporation. Holders of common stock exercise control by electing a board of directors and voting on corporate policy. Material risks associated with common stock ownership include:

- **Loss of Money** – Loss of money is a risk of investing in common stocks. An investment in common stocks is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation ("FDIC") or any other governmental agency.
- **Volatility** – Common stock and related equity values fluctuate, and sometimes widely fluctuate, in response to various factors, including:
  - Activities specific to the company that issued the common shares,
  - General stock market, economic or political uncertainty, or
  - Adverse individual company developments.
- **Interest Rate Risk** – The most well-known risk in investing in financial assets is interest rate risk, which is the risk that security prices will fall as interest rates rise. As with buying most financial assets, including common stocks, the investor has committed to receiving forecasted or expected payback in the future, and perhaps, periodic dividend payments in the future. Should the market interest rate rise from the date of the purchase, the asset's value will fall accordingly. The financial asset will then be trading at a discount or lower price to reflect the higher prevailing interest rates. Further, interest rate risks may impact the amount of cash available to distribute to shareholders as dividends or other distributions. Market interest rates are a function of several factors such as:

- The demand for money in the economy,
  - The supply of money in the economy,
  - The inflation rate,
  - The stage of the business cycle, and
  - The government's monetary and fiscal policies.
- **Lower Priority Claim on Corporate Assets** – Common shareholders are generally at the bottom of the priority ladder in any ownership structure. In the event of liquidation or bankruptcy, common shareholders have rights to a company's assets only after bondholders, preferred shareholders, and other debt holders and creditors have been paid in full.

## **Income Securities**

Income securities are investments that provide a return in the form of fixed periodic payments and the eventual return of principal at maturity. Generally, payments relating to a fixed income security are known in advance. Examples of fixed income securities include the following:

- **Government Bonds** – A debt security issued by a government to support government spending, most often issued in the country's domestic currency. Government debt is money owed by any level of government and is backed by the full faith of the government. Federal government bonds in the United States include: the savings bond, Treasury bond, Treasury inflation-protected securities (“TIPS”), and others.
- **Tax Exempt Bonds** – A security in which the income produced is free from federal, state and local taxes. Most tax-exempt securities come in the form of municipal bonds, which represent obligations of a state, territory or municipality. For some investors, U.S. savings bond interest may also be free from federal income taxes.
- **Corporate Bonds** – A debt security issued by a corporation and sold to investors. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations. In some cases, the company's physical assets may be used as collateral for bonds. Corporate bonds are considered higher risk than government bonds. As a result, interest rates paid by corporate bonds are usually higher than rates paid by government bonds, even for top-flight credit quality companies.
- **Preferred Stocks** – A class of ownership in a corporation that has a higher claim on the assets and earnings than common stock. Preferred stock is a financial instrument that has characteristics of both debt (e.g., fixed dividends) and equity (e.g., later stage claim on corporate assets in the event of liquidation or bankruptcy). Preferred stock generally has a dividend that must be paid out before dividends to common stockholders and the shares usually do not have voting rights. The precise structure of preferred stock is specific to each corporation.
- **Variable Rate Securities** – An income security where payments change based on some underlying measure such as short-term interest rates, or the rate of inflation. An example would be Treasury Inflation Protected Securities (“TIPS”).

Income securities generally are less risky than common stocks. However, there are some material risks to consider in connection with these investments, including the following:

- **Loss of Money** – Loss of money is a risk of investing in income securities. An investment in income securities is not a deposit in a bank and is not insured or guaranteed by the FDIC or any other governmental agency.
- **Interest Rate Risk** – As with common stocks, income securities are subject to interest rate risk. By buying an income security, such as a bond, the bondholder has committed to receiving a fixed rate of return for a fixed period. Should the market interest rate rise from the date of the bond's purchase, the bond's price will fall accordingly. The bond will then be trading at a discount or lower price to reflect the higher prevailing interest rates.
- **Reinvestment Risk** – The risk that the proceeds from a bond might be reinvested at a lower rate than the bond originally provided. For example, imagine that an investor bought a \$1,000 bond that had an annual coupon or interest payment of 12%. Each year the investor receives an interest payment of \$120 (12% X \$1,000), which can be reinvested back into another bond. However, over time imagine the market rate falls to 1%. Suddenly, the interest payment of \$120 received from the bond can only be reinvested at 1%, instead of the 12% rate of the original bond.
- **Call Risk** – The risk that a security will be called by its issuer. Callable securities have call provisions, which allow the security issuer to repurchase the security from the investor and retire the issue. This is usually done when interest rates have fallen substantially since the issue date. Call provisions allow the issuer to retire the old, high-rate security and sell low-rate securities in an effort to lower their cost of borrowing money.
- **Default Risk** – The risk that the security's issuer, whether it be a government or a corporation, will be unable to pay the contractual interest or principal on the bond in a timely manner, or at all. Credit ratings services such as Moody's, Standard & Poor's and Fitch give credit ratings to bond issues, which helps to give investors an idea of how likely it is that a payment default will occur. For example, most federal governments have very high credit ratings (AAA) inasmuch as governments can raise taxes or print money to pay debts, making default unlikely. However, small, emerging companies have some of the worst credit ratings (BB and lower). They are much more likely to default on their bond payments, in which case bondholders would likely lose all or most of their investment.
- **Inflation Risk** – The risk that the rate of price increases in the economy deteriorates the returns associated with the bond. This has the greatest effect on fixed bonds, which have a set interest rate from inception. For example, if an investor purchases a 5% fixed bond and then inflation rises to 10% a year, the bondholder will lose money on the investment because the purchasing power of the proceeds has been greatly diminished. The interest rates of variable rate or floating-rate bonds (i.e., "floaters") are adjusted periodically to match inflation rates or a specific interest rate index, limiting investors' exposure to inflation risk.

## **Master Limited Partnerships**

Master Limited Partnerships ("MLP") are a type of limited partnership that is publicly traded and trades like a common stock on the major stock exchanges. There are two types of partners in this type of partnership. The limited partner is the person or group that provides the capital to the MLP and receives periodic income distributions from the MLP's cash flow, whereas the general partner is the party responsible for managing the MLP's affairs and receives compensation that is linked to the performance of the venture. MLP investors face several kinds of risk that are inherent in these types of investments and in the market, including the following:

- **Loss of Money** – Loss of money is a risk of investing in MLPs. An investment in MLPs is not a deposit in a bank and is not insured or guaranteed by the FDIC or any other governmental agency.
- **Volatility** – MLPs fluctuate, and sometimes widely fluctuate, in response to various conditions, including:
  - Potentially less geographic and industry diversification among underlying operating assets,
  - Potentially lower trading volume than other securities,
  - Activities specific to the MLP that issued the partnership units,
  - General stock market, economic or political uncertainty, or
  - Adverse individual company developments.
- **Interest Rate Risk** – Similar to common stocks, MLPs are sensitive to interest rate risk. As with buying most financial assets, including MLPs, the investor has committed to receiving forecasted or expected payments in the future and changes in interest rates may adversely affect the value of these payments.

## **Real Estate Investment Trusts**

A real estate investment trust (“REIT”) is a security that trades like a common stock on the major exchanges and **invests** in real estate directly, either through properties or mortgages. REITs face various risks that are inherent in these types of investments, including the following:

- **Loss of Money** – Loss of money is a risk of investing in REITs. An investment in REITs is not a deposit in a bank and is not insured or guaranteed by the FDIC or any other governmental agency.
- **Volatility** – REITs fluctuate, and sometimes widely fluctuate, in response to various conditions, including:
  - Potentially lower diversification among underlying real estate portfolios,
  - Potentially lower trading volume than other securities,
  - Activities specific to the company that issued the REIT shares,
  - General stock market, economic or political uncertainty, or
  - Adverse individual company developments.
- **Interest Rate Risk** – Similar to common stocks, REITs are sensitive to interest rate risk. As with buying most financial assets, including REITs, the investor has committed to receiving forecasted or expected payments in the future and changes in interest rates may adversely affect the value of these payments.
- **Liquidity Risk** – Investors in REITs may face liquidity risks stemming from the lack of marketability of an investment, in this case the underlying real estate properties owned by the REIT, which cannot be bought or sold quickly enough to prevent or minimize a loss.
- **Real Estate Market Risk** – Real estate investments involve certain additional risks such as:
  - Refinancing risks,
  - Real estate property valuation risks,
  - Property management risks, and

- Potential conflicts of interest risk with fund management company.

## **Mutual Funds**

A mutual fund is an investment vehicle made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are operated by investment management firms that invest the fund's capital and attempts to produce capital gains and income for the fund's investors. A mutual fund's portfolio may be structured and maintained to match the investment objectives stated in its prospectus. Mutual funds possess the same risks, including the risk of loss of money, associated with a direct investment in any of the securities collectively owned by the fund. Mutual fund investing also may involve other risks, including the following:

- **Investment Management Risk** – The risk of inferior investment decisions being made by the investment manager of the fund that could lead to investment performance below the results experienced by other fund managers or investment advisers.
- **Duplicate Fees** – The risk that the investment management fees paid to the mutual fund manager that are in addition to our advisory fees could materially reduce investment performance below results experienced by similarly managed accounts where duplicate management fees are not charged.

## **Exchange Traded Funds**

An exchange traded fund (“ETF”) is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. ETFs are operated by investment management firms that invest the fund's capital and attempts to produce capital gains and income for the fund's investors. ETFs charge investment management fees that generally are significantly lower than the fees charged by mutual fund investment managers. An ETF's portfolio may be structured and maintained to match the investment objectives stated in its prospectus. ETFs possess many of the same risks described above with respect to mutual fund investing. In addition to those risks, the following risks are also associated with ETF investing:

- **Concentration of Investments** – The risk of more market value volatility due to a less diversified portfolio designed to meet more narrow investment objectives or to only utilize a more narrowly defined type of securities.
- **Duplicate Fees** – The risk that the investment management fees paid to the exchange traded fund manager that are in addition to our advisory fees could materially reduce investment performance below results experienced by similarly managed accounts where duplicate management fees are not charged.

## **Alternative Investments**

All investments in securities, including private investment partnerships, include a risk of loss of your principal (invested amount) and any profits that have not been realized (the securities were not sold to “lock in” the profit). Private investment funds possess many of the same risk associated with the other asset classes outlined herein. For more detailed information regarding the risks of investing in Alternative Investments or private funds, client should refer to and review the respective private fund's offering memorandum and its partnership agreement.

Alternative Investments have different investment characteristics than publicly-traded investments. Such different characteristics include, but are not limited to:

- minimum investment requirements,
- investor suitability,
- restricted or no liquidity,
- full transparency into the Alternative Investment's holdings on a timely basis
- regulatory oversight and reporting requirements,
- investment / security valuation standards, and
- marketability

As a result of these characteristics, Alternative Investments are generally considered to have an elevated degree of risk as compared to publicly-traded investments.

## **ITEM 9: DISCIPLINARY INFORMATION**

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Neither, we nor our employees have been involved in any legal or disciplinary events in the past ten (10) years that would be material to a client's evaluation of the company or our personnel.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

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We do not have any affiliations with other Financial Industry companies.

One of our employees, Joseph Ceasar, is also a registered representative with Investors of the Kingdom, a non-affiliated financial services business registered with the Texas State Securities Board that provides similar financial services for similar types of clients as ours.

Please see *Item 14- Client Referrals and Other Compensation* for information regarding Solicitor Agreements we have with certain non-affiliated financial services firms. These solicitation agreements provide that the solicitors have agreed, on a non-exclusive basis, to solicit for and refer to us prospective clients. In each case, we have agreed to pay to the solicitor a portion of any advisory fees that we receive from the applicable solicited clients. Solicitation fees paid to solicitors represent no additional expense to the applicable solicited clients. The solicitors have expressly agreed and acknowledged that neither firm is affiliated with the other firm and that the terms of our relationship are limited to their respective Solicitor's Agreement.

With regards to one of our Solicitors, CAZ Investments, LP, a material amount of our client base and, therefore, advisory fees have been referred or assigned to us from CAZ Investments LP. CAZ Investments LP and we agreed and acknowledged that the two firms are not affiliated. CAZ Investments' investment advice regarding our clients' investments is strictly limited to recommending or selecting our firm as the investment adviser to clients and accounts they believe would be suitable for our investment philosophy, style, and management when our services are engaged and, as periodically reassessed by CAZ Investments, on an ongoing basis. A potential conflict of interest could arise regarding potential favoritism in our management of CAZ Investments' referred client's accounts over our other client's accounts due to this referral relationship.



Similarly, we may from time to time, recommend and advise our clients to invest in investment products, including private funds, that are sponsored and / or managed by CAZ Investments, LP or its affiliates. CAZ Investments LP and we agreed and acknowledged that the two firms are not affiliated. Our investment advice regarding our clients' investments in CAZ Investments' offerings is strictly limited to recommending an investment product for our client's portfolio that we believe would be suitable and compatible with the client's longer-term investment strategy, plans, and objectives at the time of the recommendation and, as periodically reassessed by us, on an ongoing basis. Such cross-referral relationships could increase the potential for favoritism in our management of CAZ Investments' referred client's accounts over our other client's accounts due to this cross-referral relationship.

Therefore, in addition to the terms of the third-party Solicitor's Agreement, we have policies and procedures in place and incorporated in our **Compliance Policies Manual** to monitor and to avoid favoring any one client or group of clients over another client or group of clients. Also, for additional information regarding how we manage such potential conflicts of interest, please see to the following items herein:

- **Item 11 – Code of Ethics, Participation in Client Transactions, and Personal Trading;** in addition to the **Code of Ethics** relating to “Fair Dealing” with our clients, please see information regarding **Aggregation of Trade Orders** and our policies and procedures therein described. Therefore, we believe that any potential conflicts of interest between the management of this, or any other significant, Solicitor's clients and our other clients have been effectively identified and managed as a result of our written agreement Solicitor's Agreement, our **Code of Ethics** and our **Compliance Policies Manual** regarding fair dealing with clients and client trades.
- **Item 4 – Advisory Business;** in addition to the **Sub-Advisory Accounts** relating to recommending third-party investments managers to our clients, please see information regarding **Alternative Investments** and our policies and procedures therein described. Therefore, we believe that any potential conflicts of interest between the management of CAZ Investments', or any other recommended third-party, manager's / sponsor's clients and our other clients have been effectively identified and managed as a result of the disclosures provided to our clients at the time of such investing, our **Code of Ethics** and our **Compliance Policies Manual** regarding fair dealing with clients and client trades.

Further, we sublease office space and contract for certain support services (e.g., broadband internet service, technology consulting and support, etc.) from CAZ Investments LP. CAZ Investments LP and we agreed and acknowledged that the two firms are not affiliated and that CAZ Investments' referrals and contracting of services / leasing of office space to us is an independent, market based decision and business arrangement. It is our understanding that this contract for services and office sublease arrangement and resultant fees paid are not material to CAZ Investments LP's financial results. Importantly, we believe we could contract for similar services and office space on terms generally comparable to those provided by CAZ Investments without material impact on our operating infrastructure or our financial ability to manage our clients' accounts. Likewise, we understand that the fees paid to CAZ Investments under this contract for services and office space agreement are not material to CAZ Investments LP and, likewise, discontinuation of the fees paid to CAZ Investments LP would not have a material impact on its financial ability to manage their clients' accounts. Therefore, whether this contract for services and office space arrangement is active or discontinued in the future, we do not believe that these office space and service arrangements create a conflict of interest for our clients

Other than that listed above, neither we nor other employees have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

## **ITEM 11: CODE OF ETHICS, PARTICIPATION IN CLIENT TRANSACTIONS, AND PERSONAL TRADING**

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We have adopted a *Code of Ethics* for all supervised persons of the firm describing our high standard of business conduct, and fiduciary duty to our clients. All of our supervised persons must acknowledge the terms of the *Code of Ethics* at least annually or when amended.

Our written *Code of Ethics* addresses expected employee behavior and our expectations regarding the following topics:

- Professionalism
  - Employee Responsibility to Know the Laws
  - Independence and Objectivity in Making Judgments for Clients
  - Avoiding Any Misrepresentations
  - Avoiding Any Misconduct
- Integrity in the Capital Markets
  - Avoiding Use of Material Nonpublic Information
  - Avoiding Manipulative Practices regarding the Market
- Duties to Clients
  - Loyalty, Prudence, and Care of Client Interests
  - Fair Dealing
  - Suitability of Advice and Investments
  - Fair, Accurate and Complete Performance Presentations
  - Preservation of Client Confidentiality
- Duties to Our Firm
  - Loyalty of Service and Confidentiality of Intellectual Property
  - Disclosure of Additional Compensation Arrangements
  - Reporting any Known Violations of the Code of Ethic or SAM's Policies and Procedures to the Appropriate Company Officer
  - Diligence and a Reasonable Basis for Advice and Actions
  - Effective and Thorough Communications with Clients and Prospective Clients
- Investment Analysis, Recommendations, and Action
- Conflicts of Interest
  - Disclosure of Conflicts of Interest
  - Monitoring and Reporting of Personal Security Transactions
  - Disclosure of Any Referral Fees or Commissions Received

- Responsibility to Protect the Reputation and Integrity of Our Firm and of Fellow Employees

Our compliance policies and procedures include various measures designed to assist us in adhering to our **Code of Ethics** and regulatory requirement for registered investment advisory firms such as ours. Our **Compliance Policies and Procedures** include procedures for monitoring employees' trading activities and investment holdings. The policy requires that non-exempt trades made by employees or by persons related to us be pre-approved by the designated person responsible for such oversight and review. Transactions exempt from such pre-approval process include trades in investment company securities (e.g., mutual funds) and/or other exempt transactions. Regarding non-exempt trades, employees and related parties may trade securities for their account(s) by participating in our firm's **Aggregation of Trade Orders** prepared and executed by our firm and receive allocations from such executed orders per our **Compliance Policies and Procedures Manual**. Please see **Item 12 – Brokerage Practices** and specifically the **Aggregation of Trade Orders** disclosure herein.

Additionally, our Chief Compliance Officer ("CCO") or his designee is responsible for receiving notice of and reviewing the trades of each employee. Quarterly reports listing the security traded, the number of shares or units traded, prices, symbols and custodian are reviewed and approved by the CCO or his designee no later than thirty (30) days after the end of the calendar quarter of which the transaction was effected.

Further, we maintain certain policies and procedures concerning the misuse of material non-public information (i.e., "inside information") that are designed to prevent insider trading by any officer, partner, or associated person our firm. The policy regarding the prohibited use of material non-public information applies to both our affiliated parties' accounts and our clients' accounts.

We have adopted internal policies and procedures to implement and to monitor our and our employees' practices regarding our **Code of Ethics**. Clients have the right to receive a complete copy of our **Code of Ethics** and may contact our CCO at 832.956.1000 or [Service@Semita-AM.com](mailto:Service@Semita-AM.com) to receive a copy.

## **ITEM 12: BROKERAGE PRACTICES**

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### **Counterparty Selection**

Although we are not affiliated with any broker-dealer, we do recommend or refer our clients to brokerage firms with which we have a positive, efficient, and professional working relationship. We have preferences that clients utilize a brokerage firm that has an efficient and effective combination of:

- Trade execution capabilities;
- Broad financial services capabilities to meet our clients' needs;
- Back office operation systems and personnel; and
- Brokerage commissions and fee schedules consistent with the quality of service we seek on their behalf.

In evaluating brokerage firms for referral or recommendation for our clients' use, we review a wide variety of characteristics and capabilities including:

- Functionality/capabilities,
- Operating systems' compatibility and efficiencies,
- Costs,
- Governance, and
- Financial condition of the brokerage firm.

While many brokerage firms cannot satisfactorily meet each criteria of evaluation, we collectively consider these factors in their totality in evaluating a brokerage firm, its services, and capabilities.

As a result of these preferences and due diligence practices, a significant majority of our clients utilize the custodian and brokerage services of Fidelity Investments and Charles Schwab Institutional.

### **Directed Brokerage**

However, clients may direct us to use a specific custodian/brokerage firm for their account of than those which we might recommend. Clients independently selecting brokerage firms and directing their brokerage business might incur operational limitations or challenges for their account, such as limiting our ability to:

- Negotiate commissions and other fees with the brokerage firm on their behalf such that the client may pay trading costs that are higher than those obtainable from other brokers;
- Allow them to participate in the purchase of an IPO along with other SMAs as the designated brokerage firm may not be part of the distribution syndicate;
- Batch or group the client's orders with our other orders for efficient trade execution such that the client may not receive, in some cases, timely execution of trade orders due to order placement practices of the selected brokerage firm; or
- Seek best execution services from brokerage firms - best execution services include a combination of varied services received by us from brokerage firms including operational support and investment research as described below.

### **Fees in Lieu of Brokerage Commissions**

To assist clients in managing and controlling brokerage commission costs associated with portfolio turnover or trading activity, some clients may seek "Asset Based Pricing" arrangements with certain brokerage firms. Asset Based Pricing arrangements are fees charged by the brokerage firm based upon a percentage of the total asset value of the account. Asset Based Pricing fees from various brokerage firms range from 0.15% to 0.25% of the asset value of the account on an annual basis. Asset Based Pricing allows clients to trade as often as desired without incurring brokerage commission charges. For certain asset sized accounts, and with anticipated portfolio turnover rates, we assist clients in estimating which brokerage compensation arrangement would better serve their needs in managing and controlling such costs and expenses.

Asset Based Pricing arrangements are not offered by all brokerage firms. Brokerage firms that offer Asset Based Pricing arrangements might have certain requirements for an account to qualify for such brokerage firm compensation arrangements (e.g., annual minimum fees, minimum assets in the account, etc.).

## **Best Execution**

It is our fiduciary responsibility to seek the most favorable transaction terms available under the circumstances for our clients' accounts at the time of each trade. In seeking the most favorable transactions, we consider factors in addition to commissions and custodial settlement fees in the pursuit of the best execution of trades. "Best Execution" is the execution of transactions for client accounts in such a manner that the client's total cost or proceeds are the most favorable under the circumstances at the time of the trade. Best Execution does not necessarily mean paying the lowest possible commission or other trade settlement fees.

The additional factors and capabilities provided by executing brokerage firms that are considered by us may include the following:

- Transaction price and execution, especially with larger trades for multiple clients in batched or blocked orders;
- Supplemental investment research;
- Investment strategy/allocation research;
- Ability to leverage executing brokerage firm's technology;
- Confidential executions and client privacy;
- Customized trade reporting services/capabilities;
- Trading support services;
- Efficiency of back office capabilities/electronic interfaces with our systems;
- Financial strength/surety provided in trading activity;
- Other investment, reporting, or business operational services;
- Providing directly to us, or paying a third party for the provision of, certain research materials, data systems, analytical products or services, and other similar products and services used for the benefit of managing a client's investment portfolios; or
- Other services provided for the direct or indirect benefit our firm, our clients, and/or the client's account(s).

Therefore, we may pay broker commissions that are higher than another broker might have charged for the same transaction, in recognition of our assessment of the value of the various value-added services listed above. However, when higher commission costs are incurred, we believe that the higher commission costs borne by client accounts are reasonable in relation to the overall services provided. The client account that bears the cost of such a commission for a particular trade will not necessarily be the sole beneficiary of such value-added services.

## **Soft Dollars**

We may enter into arrangements with brokers to benefit specific, qualifying client accounts by:

- having soft dollar credits rebated to the client's account or to have commissions recaptured by the client's account from which the credits or commissions were generated, or
- using soft dollar credits to pay expenses otherwise payable by client's account.

Either of the two uses of soft dollar credits / budgets listed immediately above would have the effect of enhancing the returns associated with such client's account from the returns that would exist absent such uses.

We also engage certain brokerage firms that offer Section 28(e) or "soft dollar" arrangements that we believe provides a benefit to our client base in general. "Soft dollar" credits or budgets or other such benefits are provided to us based upon the volume of trades and commissions received by the brokerage firm from our clients. Our use of these soft dollar credits / budgets / benefits is restricted to obtaining investment research and other investment decision making products and services selected by us through arrangements provided by the brokerage firm(s). Such investment decision making products and services may be available from the brokerage firm as a 'proprietary' service (a product or service created or developed by that firm) or 'non-proprietary' (a product or service developed and offered by a third-party) service and acquired for our use through these soft dollar credits / budgets / benefits. Such investment decision making products and services might include some of the following:

- **Market Research**
  - Trade Order Management Systems
  - Pre-trade & Post-trade Analytical Systems
    - Post-trade matching of trade information
    - Electronic communications of allocation instructions
    - Routing of trade settlement instructions
    - Trade settlement and clearing
  - Research on Trade Optimization venues
  - Advice from brokerage firms regarding trade executions:
  - Research and Publications directed toward investment management and investment decision making
- **Financial & Market Data**
  - Economic Data such as interest rates, inflation, unemployment statistics
  - Market Data such as stock quotes, last sale prices and trading volumes
  - Company Financial Analysis & Valuation Modelling Systems

The costs of research and other investment decision making services and products are paid as a result of trading activity by client transactions executed at the brokerage firm(s). Any benefits received from such soft dollar arrangements may benefit our clients in addition to those clients whose trading activity actually generated the soft dollar credits. As a result of trading with brokerage firms providing soft dollar arrangements, clients may pay higher fees for comparable services they could receive other brokerage firms.

Using soft dollars to obtain investment research and/or related services creates a conflict of interest between us and our clients. Soft dollars may be used to acquire products and services that are not exclusively for the benefit of the clients which paid the commissions and that may primarily or exclusively benefit us. If we are able to acquire these products and services without expending our own resources (including advisory fees paid by clients), our use of soft dollars would tend to increase our profitability. Furthermore, we may have an incentive to select or recommend brokers based on our interest in receiving research or other products or services, rather than on our clients' interest in obtaining the lowest execution prices.

Our soft dollar practices are controlled and monitored by our Brokerage Committee following the firm's internal policies and procedures regarding:

- Selecting brokerage firms to engage in soft dollar trading arrangements;

- Selecting research and other related investment decision making products and services to obtain through soft dollar credit programs; and
- Allocating the cost and expenses of mixed use products and services among either:
  - Research and investment decision making products and services vs. non-qualifying products and services, and
  - Our use vs. any affiliated companies' use of such products and services in the investment decision making process.

Clients may obtain a summary of our Section 28(e) or soft dollar program, including a summary of their trade participation and commissions incurred in the program, by requesting a copy from our CCO 832.956.1000 or [Service@Semita-AM.com](mailto:Service@Semita-AM.com).

### **Aggregation of Trade Orders**

On occasion, we may group or batch orders for the same security to be traded / executed at a respective brokerage firm into one order prior to placing the trades. When we receive only partial fills on orders, the trades that were executed are aggregated and average prices are provided to clients on a pro rata basis on the size of the total shares executed. Unfilled shares are carried forward to the next trading day for aggregation, averaging, and allocating to the accounts as indicated.

We may group or 'batch' orders to buy or sell the same security for more than one advisory account managed and/or for our own account, or affiliated companies' accounts, or the personal accounts of our officers, directors, employees or other affiliated persons. We may, but we are not under any obligation to, batch or group the transactions.

Generally, once executed, the batched transactions are allocated proportionally to all subject accounts and at the average price received for the batched shares from the executing brokerage firm for the trading day. We may make exceptions to this procedure based upon special portfolio constraints, cash position, client or regulatory restrictions, odd-lot size of an available transaction, brokerage firm or custodian firm restrictions or operating procedures, or other equitable fiduciary reason. When it is not possible to receive the same price or time of execution for all of the securities purchased or sold in a batched order, such batched orders may be executed in one or more transactions at varying prices.

## **ITEM 13: REVIEW OF ACCOUNTS**

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Client accounts are periodically reviewed by various employees including traders, portfolio managers, and relationship managers. This includes, but is not limited to: Michael Meagher, CFA, Chief Executive Officer ("CEO") & Chief Investment Officer ("CIO"); Joseph Ceasar, Executive Vice President – Investment Strategies and Portfolio Management; Casey Hodges, Chief Operating Office ("COO") and Chief Compliance Officer ("CCO"). Importantly, although we develop our client's investment strategy on a customized basis with regard to investment allocations to various asset classes, many asset classes are then managed on a more systematic or standard basis with consistencies of holdings within each asset class. Our monitoring of our client holdings is greatly facilitated by the similarity of securities owned within various asset classes across our client account base.

Additionally, we have monitoring systems in place to identify accounts significantly or materially out of line with either client-stated asset allocations or our modeled portfolio positions for the respective asset

class. This system is actively monitored by the traders and our CCO. Relationship managers are provided with such management reports as needed for their use in monitoring their clients' portfolio's adherence to client-stated asset allocations and our model portfolios, where applicable. Furthermore, these monitoring reports are reviewed at least quarterly by our CIO or his designee from the investment strategies team.

Our Brokerage Committee monitors trade execution results for client accounts to ensure no client or group of clients are being advantaged or disadvantaged by our trading practices and procedures, by an executing brokerage firm's execution capabilities, or by a brokerage firm's commissions or other transactions fees and charges.

Finally, we review each account's investment performance relative to our other similarly-managed accounts with similar investment objectives and management discretion. This performance results monitoring process is intended to ensure clients with similar investment objectives and account terms and conditions are obtaining similar investment results from our investment advisory process.

Account reviews, in addition to those outlined above, may be undertaken due to:

- Change in market conditions;
- Change of security position(s);
- Request by client for a meeting, or the occurrence of such meeting;
- Change in client's investment objective;
- Change of our internal policies and procedures; or
- Other routine testing requested by our CIO, relationship managers or CCO.

Client portfolio reports are available on a daily basis through the password protected online portal of the portfolio accounting system used by us for our SMAs. Content included in these portfolio reports include:

- Inventory of investment holdings in their account including:
  - Purchase date,
  - Amount of shares/units purchased,
  - Cost basis of securities owned,
  - Market price and total market value of securities owned as of the close of the previous trade date, and
  - Realized capital gains and loss summary for the year to date.

We also provide a more comprehensive report to clients on a calendar quarter-end basis and, typically, at periodic account review meetings with clients. Quarterly reports are normally prepared and also published on our secure website for client's access, review, download, or printing. Alternatively, clients may request that we provide these reports in hard copy and deliver the reports to them by postal service. Also, clients may request reports from us covering interim reporting periods at any time.

Contents published to the client's secured account in their quarterly reports include:

- Inventory of investment holdings in their account including:
  - Purchase date,



- Amount of shares/units purchased,
- Cost basis of securities owned,
- Market price and total market value of securities owned as of the close of the previous trade date,
- Securities purchased and sold during the quarter,
- Realized capital gains and loss summary for the year to date,
- Investment performance reports and comparisons to benchmark indices' results, and
- Quarterly commentary reviewing investment markets' performance and our economic and market outlook.

Clients also receive similar reports from their respective custodians or brokerage firms. Such reports are frequently available from their custodian on a daily basis from websites and on a monthly basis as applicable for each custodian. Clients are strongly encouraged to compare reports presented by us to those reports presented by their custodian firm(s) covering similar time periods. Any material differences between the two reports should be discussed with both parties independently until client has received adequate reconciliation and explanation of any material differences in the account statements.

## **Client Privacy**

We have adopted policies and procedures reasonably designed to protect various records and information of our clients. Except as authorized by each client and/or investor, private information about our clients is disclosed only as permitted by applicable law to our affiliates and service providers, including our accountants, attorneys, brokers, custodians, transfer agents and any other parties whose services are necessary or convenient to the operation of client accounts. Notice of our privacy policy is provided on an annual basis to clients and is available to clients through our website or from CCO 713.403.8250 or [Service@Semita-AM.com](mailto:Service@Semita-AM.com).

## **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

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We compensate non-employees for soliciting investment advisory clients on behalf of our firm. Solicitation fees are negotiated on a case by case basis and documented in a written agreement with each solicitor.

We currently have two active solicitation agreements with:

- CAZ Investments, L.P. (Houston, TX) and
- Meagher Financial Services (Marietta, GA).

The solicitation agreements (the "Solicitation Agreements") provide that the solicitors have agreed, on a non-exclusive basis, to solicit for and refer to us prospective clients. In each case, we have agreed to pay to the solicitor a portion of any advisory fees that we receive from the applicable solicited clients. Inasmuch as CAZ Investments L.P. is a legacy and a material relationship for us, they may receive additional cash payments based upon our firm's success. Solicitation fees paid to solicitors represent no additional expense to the applicable solicited clients.

In addition to the foregoing, we may enter into agreements or arrangements in the future with other persons who solicit clients on behalf of our firm. For their services, such persons may receive compensation which may be a percentage of the investment advisory fee paid to us by such clients.

All solicitation arrangements entered into by us are appropriately disclosed to applicable clients and are designed to be in substantial compliance with Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended.

## **ITEM 15: CUSTODY**

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We do not serve as a qualified custodian of our clients' assets. Client accounts are maintained at a qualified custodian firm such as a brokerage firm, a bank, or a trust company. In each instance, the custodian provides statements directly to clients, normally on a monthly basis, but at least quarterly. However, many custodians provide secured, password protected website access to clients that provide reporting on a daily basis as of the close of the previous trading day. Custodian statements normally provide an accounting of the investment account's activities and status including all transactions in the account, all assets owned by the account with a fair market value estimate of the assets in inventory, as well as other pertinent recordkeeping information. Clients should carefully review these statements.

We also provide statements to clients in addition to those provided by the applicable custodian or third-party sub-advisor or administrator.

Clients are strongly encouraged to compare reports presented by us to those reports presented by their custodian firm or sub-advisor or their private fund administrator. Any material differences between the reports from different sources should be discussed with all parties independently until the client has received adequate reconciliation and explanation of any material differences in the account statements.

## **ITEM 16: INVESTMENT DISCRETION**

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We accept investment authority to supervise and direct the investments of client's SMA portfolios subject to limitations the client may impose in writing on our investment management activities. We, as agent and attorney-in-fact for client's account, without prior consultation with the client, may:

- Direct the purchase, sale, exchange, conversion, and otherwise trade in stocks, bonds and other securities including money market instruments;
- Direct the amount of securities purchased, sold, exchanged, and otherwise traded;
- Place orders for the execution of such securities transactions with a broker dealer or other third party broker/dealers; and,
- Determine the commission rates paid. We will allocate brokerage transactions in a manner it believes to be fair and responsible to our clients, and consistent with client objectives.

In addition to the investment discretion authority outlined above, we may be assigned by written agreement the authority for other activities such as:

- To invoice and receive payment for our investment advisory fees directly from the custodian of the client's investment account;
- To receive and vote proxy statements on behalf of client accounts; and
- To instruct the custodian firm to deliver funds directly to the client via:
  - Transfer to another financial institution for the benefit of an account with the same registration and tax identification number;
  - Transfer within the custodial firm for the benefit of an account with the same tax identification number; or
  - Delivery of a check written to the account holder(s) and mailed to the address on record at the custodian firm.

## **ITEM 17: VOTING CLIENT SECURITIES**

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Unless prohibited by law, clients retain the right and obligation to vote proxies and participate in legal proceedings, including bankruptcies, relating to the securities held in their accounts. Clients should receive Proxy Voting statements directly from their custodian / brokerage firm. However, clients may specifically delegate Proxy Voting rights and obligations to a properly authorized agent including our firm. When such voting delegation has been accepted by our firm, the client should direct the custodian / brokerage firm to deliver the Proxy Voting statements directly to us.

For ERISA clients and for those cases where we have been specifically delegated the proxy voting authority by the client, written proxy voting guidelines have been established. A copy of the proxy voting policies and procedures, and our actual proxy votes for securities owned in a client's account and voted on their behalf by us, are available upon request by contacting our CCO at 832.956.1000 or [Service@Semita-AM.com](mailto:Service@Semita-AM.com).

### **Delegated Proxy Authority**

Clients who have different proxy voting philosophies from those generally described below, and more fully described in our guidelines, should not delegate proxy voting to us. We generally will not accept standing exceptions to our Proxy Voting Guidelines. However, we may accept from clients written directive exceptions to our proxy voting policy on an individual proxy vote basis. Written proxy voting directives should be forwarded to our CCO.

We generally will vote proxies according to an approach known as the "Wall Street Rule". This means that we behave as a passive investor in our portfolio holdings and seeks to maximize shareholder value; but, not necessarily exercise control over the issuers of portfolio securities or advance a particular social agenda. We will therefore vote with management recommendations on most corporate matters. If we are dissatisfied with corporate management, we will generally sell the securities of that corporation. However, we may exercise more independent and critical evaluation of proposals relating to directors', executives' and employees' compensation and benefit programs and vote these items on a case-by-case basis.

### **Proxies and Conflicts of Interest**

Our CIO or his designee reviews each proxy received to assess the extent to which there may be a material conflict of interest between the Company or Employees and clients regarding any proxy voting issues/items.

In the event that a material conflict of interest is perceived, the CIO or his designee will bring the proxy issue to the attention of the investment committee and generally will:

- Vote matters that are specifically covered by our voting guidelines (e.g., matters where our role is strictly in accordance with those guidelines); and
- For other matters, we will seek advice from independent third-party advisers to review the issues and vote the proxies based upon their determination of what is in the best interest of our clients.

## **ITEM 18: FINANCIAL INFORMATION**

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We have never filed for bankruptcy and are not aware of any financial condition expected to affect our ability to manage client accounts. We do not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, therefore have no material additional financial disclosures to make.

## **ITEM 19: ADDITIONAL INFORMATION**

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We have no additional information to offer that would be material in making investment decisions.