

## CAPITECT, INC.

*a Registered Investment Adviser*

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This brochure provides information about the qualifications and business practices of Capitect, Inc. (hereinafter “Capitect” or the “Firm”). If you have any questions about the contents of this brochure, please contact the Firm at the telephone number listed above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Additional information about the Firm is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The Firm is a registered investment adviser. Registration does not imply any level of skill or training.

**Item 2. Material Changes**

In this Item, Capitect is required to discuss any material changes that have been made to the brochure since the last annual amendment. As this brochure has been prepared in connection with the Firm's initial application for investment adviser registration, there are no such material changes to disclose.

**Item 3. Table of Contents**

Item 2. Material Changes .....	2
Item 3. Table of Contents .....	3
Item 4. Advisory Business .....	4
Item 5. Fees and Compensation.....	5
Item 6. Performance-Based Fees and Side-by-Side Management .....	7
Item 7. Types of Clients .....	7
Item 8. Methods of Analysis, Investment Strategies and Risk of Loss .....	7
Item 9. Disciplinary Information .....	9
Item 10. Other Financial Industry Activities and Affiliations .....	10
Item 11. Code of Ethics .....	10
Item 12. Brokerage Practices .....	11
Item 13. Review of Accounts .....	14
Item 14. Client Referrals and Other Compensation .....	15
Item 15. Custody .....	15
Item 16. Investment Discretion .....	15
Item 17. Voting Client Securities.....	16
Item 18. Financial Information.....	16

## Item 4. Advisory Business

Capitect offers technology solutions that enable financial advisors to build and implement unique portfolios and glide paths per client. These solutions include an online client and advisor dashboard, goal-based portfolio builder, and automated portfolio management.

Prior to Capitect rendering any of the services defined below, financial advisors are required to enter into one or more written agreements with Capitect setting forth the relevant terms and conditions of the relationship (the “Services Agreement”). Capitect considers the financial advisor to be its client and not that financial advisor’s end clients. References to “clients” in this brochure refers to the financial advisors, while references to “end clients” refers to the advisory clients of the financial advisors that are on Capitect’s technology platform (referred to as the “Capitect platform” or the “platform”).

Capitect filed for registration in January 2017 and is primarily owned by Edwin Choi and Gregory Yee. As of the date of this filing, Capitect does not have any assets under management. While this brochure generally describes the business of Capitect, certain sections also discuss the activities of its Supervised Persons, which refer to the Firm’s officers, partners, directors (or other persons occupying a similar status or performing similar functions), employees or any other person who provides investment advice on Capitect’s behalf and is subject to the Firm’s supervision or control.

### Client and Advisor Dashboard

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Capitect offers a client dashboard that enables financial advisors to easily provide their clients a more modern online experience. The client dashboard features account aggregation, goal tracking, portfolio reporting, and document sharing. The advisor dashboard features firm-level reporting and analytics, customizable alerts, and integrations with other advisor technology systems.

### Portfolio Management Services

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Capitect’s portfolio builder enables financial advisors to build unique goal-based portfolios and glide paths per client. Financial advisers define and maintain their own investment strategies in Capitect’s technology platform. Investment strategy definitions include the specific securities to use, the allocation models, and the parameters that affect the resulting portfolio. Advisors and their clients then determine various risk and investment parameters suitable for each client. Capitect then calculates the target allocation and portfolio for each end client based on both the advisor’s investment strategy and the end client’s specific parameters. Capitect provides this advice regarding allocation through its technology platform and does not give individual advice to any of the financial advisors’ clients.

Capitect’s rebalancing solution enables advisors to implement the unique portfolios produced by the portfolio builder. Capitect monitors each end client’s accounts to verify that the current asset allocation

stays sufficiently close to their target allocation. As needed, Capitect calculates the trades required to bring those accounts back to the target portfolio. Advisors can choose to submit these trades themselves or authorize Capitect to submit the trades on their behalf.

When Capitect submits trades on behalf of advisors, adjustments to the portfolios are implemented on a discretionary basis by Capitect. Products utilized through the platform include mutual funds, exchange-traded funds (“ETFs”), closed end funds, money market funds, and individual debt and equity securities. Even when Capitect has discretionary authority, advisors maintain the ability to change the target portfolio, initiate rebalancing as needed, and to manually approve large transactions.

Capitect tailors its services to meet the needs of the financial advisors and seeks to ensure, on a continuous basis, that end client portfolios are managed in a manner consistent with the needs and objectives determined through the platform. Clients are advised to promptly notify Capitect if there are changes in the financial situation of end clients or if they wish to place any limitations on the management of the portfolios. Clients may impose reasonable restrictions or mandates on the management of their accounts if Capitect determines, in its sole discretion, the conditions would not materially impact the performance of a management strategy or prove overly burdensome to the Firm’s management efforts.

## **Item 5. Fees and Compensation**

### **Client and Advisor Dashboard**

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Capitect offers this service on a subscription basis. Depending on the size and the nature of the advisor’s business, subscription fees can be based on the number of advisors, number of end clients, or the number of accounts. When based on the number of advisors, fees generally start at \$195 per month per advisor.

### **Portfolio Management Services**

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Capitect offers this service on a fee basis, which may include fixed setup and maintenance fees, as well as fees based upon assets receiving portfolio management services. The asset-based fee generally varies between 10 and 15 basis points (0.10% – 0.15%), depending upon the size and nature of the advisor’s business and the type of services rendered.

Advisors can choose to structure Capitect’s asset-based fee to best match how they charge their end clients. Fees can be charged (1) quarterly or monthly, (2) in advance or arrears, and (3) based upon the market value of the assets being managed by Capitect on the last day of the previous billing period, the average of month-end account balances, or the average daily account balance.

For the initial period of an engagement, the fee is calculated on a pro rata basis. In the event the advisory agreement is terminated, the fee for the final billing period is prorated through the effective date of the termination and the outstanding or unearned portion of the fee is charged or refunded to the client, as appropriate.

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**Fee Discretion**

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Capitect may, in its sole discretion, negotiate to charge a lesser fee based upon certain criteria, such as anticipated future assets on the platform, dollar amount of assets to be managed, pre-existing/legacy client relationship, account retention and pro bono activities.

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**Additional Fees and Expenses**

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In addition to the fees paid to Capitect, financial advisors and their end clients may also incur certain charges imposed by other third parties, such as broker-dealers, custodians, trust companies, banks and other financial institutions (collectively “Financial Institutions”). These additional charges may include securities brokerage commissions, transaction fees, custodial fees, fees attributable to alternative assets, reporting charges, margin costs, charges imposed directly by a mutual fund or ETF in a client’s account, as disclosed in the fund’s prospectus (*e.g.*, fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. The Firm’s brokerage practices are described at length in Item 12, below.

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**Direct Fee Debit**

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Financial advisors and their end clients generally provide Capitect with the authority to directly debit their accounts for payment of the Capitect fees. The Financial Institutions that act as the qualified custodian for accounts, from which the Firm retains the authority to directly deduct fees, have agreed to send statements to end-clients not less than quarterly detailing all account transactions. Alternatively, clients may elect to have Capitect send a separate invoice for direct payment.

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**Use of Margin**

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Capitect does not recommend the use of margin in the management of the end client’s investment portfolio. However, if financial advisors do use margin, the fee payable will be assessed gross of margin such that the market value of the client’s account and corresponding fee payable by the client or end client to Capitect will be increased.

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**Account Additions and Withdrawals**

End clients may make additions to and withdrawals from their account at any time, subject to Capitect's right to terminate an account. Additions may be in cash or securities provided that the Firm reserves the right to liquidate any transferred securities or declines to accept particular securities into a client's account. End clients may withdraw account assets subject to the usual and customary securities settlement procedures. When transferred securities are liquidated, they may be subject to transaction fees, short-term redemption fees, fees assessed at the mutual fund level (e.g., contingent deferred sales charges) and/or tax ramifications.

**Item 6. Performance-Based Fees and Side-by-Side Management**

Capitect does not provide any services for a performance-based fee (i.e., a fee based on a share of capital gains or capital appreciation of a client's assets).

**Item 7. Types of Clients**

Capitect offers services to financial advisors. The financial advisors may offer their services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities through Capitect's platform.

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

As discussed above, Capitect's portfolio builder enables financial advisors to build unique goal-based portfolios and glide paths per client. Financial advisers define and maintain their own investment strategies in Capitect's technology platform. Investment strategy definitions include the specific securities to use, the allocation models, and the parameters that affect the resulting portfolio. Advisors and their clients then determine various risk and investment parameters suitable for each client. Capitect then calculates the target allocation and portfolio for each end client based on both the advisor's investment strategy and the end client's specific parameters. Capitect provides this advice regarding allocation through its technology platform and does not give individual advice to any of the financial advisors' clients.

Capitect's rebalancing solution enables advisors to implement the unique portfolios produced by the portfolio builder. Capitect monitors each end client's accounts to verify that the current asset allocation stays sufficiently close to their target allocation. As needed, Capitect calculates the trades required to bring

those accounts back to the target portfolio. Advisors can choose to submit these trades themselves or authorize Capitect to submit the trades on their behalf.

When Capitect submits trades on behalf of advisors, adjustments to the portfolios are implemented on a discretionary basis by Capitect. Products utilized through the platform include mutual funds, exchange-traded funds (“ETFs”), closed end funds, money market funds, and individual debt and equity securities. Even when Capitect has discretionary authority, advisors maintain the ability to change the target portfolio, initiate rebalancing as needed, and to manually approve large transactions.

## **Risk of Loss**

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### *Market Risks*

Investing involves risk, including the potential loss of principal, and all investors should be guided accordingly. The profitability of a significant portion of Capitect’s recommendations and/or investment decisions may depend to a great extent upon correctly assessing the future course of price movements of stocks, bonds and other asset classes. There can be no assurance that Capitect or the financial advisors will be able to predict those price movements accurately or capitalize on any such assumptions.

### *Mutual Funds and ETFs*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund’s underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund’s stated daily per share net asset value (“NAV”), plus any shareholders fees (*e.g.*, sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund’s holdings. The trading prices of a mutual fund’s shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund’s shares trading at a premium or discount to actual NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed based ETFs and potentially more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 20,000 shares



or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

#### *End Client's Reliance on the Financial Advisors*

As stated above, Capitect does not determine the investment strategy or choose specific investments. Those choices are made by the financial advisor that is the client of the Firm. Those financial advisors select the specific holdings that make up the portfolios held by end clients and define how end client portfolios get built. Therefore, those end clients rely on their financial advisor's ability to successfully develop and maintain their investment strategies.

#### *Reliance on Technology and Algorithms to Build and Implement Portfolios*

As stated above, Capitect calculates portfolios for each end client based on the investment strategy provided by the advisor and the parameters provided for each end client. This calculation can include algorithms such as interpolation, numerical integration, and other methods. To implement the portfolio, Capitect calculates and submits the optimal trades to rebalance each end client's portfolio to reasonably match their target portfolio. Financial advisors and their end clients rely on Capitect's technology platform to perform each step as designed and in a timely manner.

#### *Use of Margin*

Capitect does not recommend the use of margin by end clients. However, the financial advisors may use margin in their end clients' accounts. While the use of margin borrowing can substantially improve returns, it may also increase overall portfolio risk. Margin transactions are generally effected using capital borrowed from a Financial Institution, which is secured by a client's holdings. Under certain circumstances, a lending Financial Institution may demand an increase in the underlying collateral. If the end client is unable to provide the additional collateral, the Financial Institution may liquidate account assets to satisfy the end client's outstanding obligations, which could have extremely adverse consequences. In addition, fluctuations in the amount of an end client's borrowings and the corresponding interest rates may have a significant effect on the profitability and stability of an end client's portfolio.

## **Item 9. Disciplinary Information**

Capitect has not been involved in any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of its management.

## Item 10. Other Financial Industry Activities and Affiliations

This item requires investment advisers to disclose certain financial industry activities and affiliations.

### Related Investment Adviser

Capitect is under common control with its affiliated California registered investment adviser, Mariposa Capital Management, LLC. Edwin Choi is the managing member of Mariposa. Capitect and Mariposa do not refer business to each other, and Mariposa does not provide any services to Capitect or its clients.

## Item 11. Code of Ethics

Capitect has adopted a code of ethics in compliance with applicable securities laws (“Code of Ethics”) that sets forth the standards of conduct expected of its Supervised Persons. Capitect’s Code of Ethics contains written policies reasonably designed to prevent certain unlawful practices such as the use of material non-public information by the Firm or any of its Supervised Persons and the trading by the same of securities ahead of clients in order to take advantage of pending orders.

The Code of Ethics also requires certain of Capitect’s personnel to report their personal securities holdings and transactions and obtain pre-approval of certain investments (*e.g.*, initial public offerings, limited offerings). However, the Firm’s Supervised Persons are permitted to buy or sell securities that it also recommends to clients if done in a fair and equitable manner that is consistent with the Firm’s policies and procedures. This Code of Ethics has been established recognizing that some securities trade in sufficiently broad markets to permit transactions by certain personnel to be completed without any appreciable impact on the markets of such securities. Therefore, under limited circumstances, exceptions may be made to the policies stated below.

When the Firm is engaging in or considering a transaction in any security on behalf of a client, no Supervised Person with access to this information may knowingly effect for themselves or for their immediate family (*i.e.*, spouse, minor children and adults living in the same household) a transaction in that security unless:

- the transaction has been completed;
- the transaction for the Supervised Person is completed as part of a batch trade with clients; or
- a decision has been made not to engage in the transaction for the client.

These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact Capitect to request a copy of its Code of Ethics.

## Item 12. Brokerage Practices

### Recommendation of Broker/Dealers for Client Transactions

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Capitect generally requires financial advisors to have their end clients utilize the custody, brokerage and clearing services of TD AMERITRADE Institutional, a division of TD AMERITRADE, Inc. ("TD Ameritrade") for accounts. Capitect participates in the institutional customer program offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA, an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisers services which include custody of securities, trade execution, clearance and settlement of transactions. Capitect receives some benefits from TD Ameritrade through its participation in the program.

Factors which Capitect considers in recommending TD Ameritrade or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. TD Ameritrade may enable the Firm to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by TD Ameritrade may be higher or lower than those charged by other Financial Institutions.

The commissions paid by end clients to TD Ameritrade comply with the Firm's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified Financial Institution might charge to effect the same transaction where Capitect determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a Financial Institution's services, including among others, the value of research provided, execution capability, commission rates and responsiveness. Capitect seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker/dealers in return for investment research products and/or services which assist Capitect in its investment decision-

making process. Such research generally will be used to service all of the Firm's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because Capitect does not have to produce or pay for the products or services.

Capitect periodically and systematically reviews its policies and procedures regarding its recommendation of Financial Institutions in light of its duty to obtain best execution.

### **Software and Support Provided by Financial Institutions**

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Capitect may receive without cost from TD Ameritrade computer software and related systems support, which allow Capitect to better monitor client accounts maintained at TD Ameritrade. Capitect may receive the software and related support without cost because the Firm renders investment management services to clients that maintain assets at TD Ameritrade. The software and support is not provided in connection with securities transactions of clients (i.e., not "soft dollars"). The software and related systems support may benefit Capitect, but not its clients directly. In fulfilling its duties to its clients, Capitect endeavors at all times to put the interests of its clients first. Clients should be aware, however, that Capitect's receipt of economic benefits from a broker/dealer creates a conflict of interest since these benefits may influence the Firm's choice of broker/dealer over another that does not furnish similar software, systems support or services.

Specifically, Capitect may receive the following benefits from TD Ameritrade:

- Receipt of duplicate client confirmations and bundled duplicate statements;
- Access to a trading desk that exclusively services its institutional traders;
- Access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and
- Access to an electronic communication network for client order entry and account information.

There is no direct link between Capitect's participation in TD Ameritrade's institutional customer program and the investment advice it gives to its clients, although Capitect receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. Additionally, Capitect may receive the following benefits from TD Ameritrade through its registered investment adviser division: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services its Registered Investment Adviser participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account

information. The Firm also has the ability deduct advisory fees directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to the Firm by third party vendors. TD Ameritrade may fund business consulting and professional services received by Capitect's related persons.

Some of the products and services made available by TD Ameritrade through the program may benefit Capitect but not its client. These products or services may assist Capitect in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help Capitect manage and further develop its business enterprise. The benefits received by Capitect's participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade.

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**Brokerage for Client Referrals**

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Capitect does not consider, in selecting or recommending broker/dealers, whether the Firm receives client referrals from the Financial Institutions or other third party.

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**Directed Brokerage**

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Capitect can only utilize broker-dealers that are added to the Firm's platform. Financial advisors and their end clients will negotiate terms and arrangements such broker-dealers, but the financial advisors cannot direct Capitect to use broker-dealers that are not on the platform.

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**Trade Aggregation**

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Transactions for each end client generally will be effected independently, unless Capitect decides to purchase or sell the same securities for several end clients at approximately the same time. Capitect may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among the Firm's clients differences in prices and commissions or other transaction costs that might not have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among the end clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that the Firm determines to aggregate end client orders for the purchase or sale of securities, including securities in which Capitect's Supervised Persons may invest, the Firm generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. Capitect does not receive any additional compensation or remuneration as a result of the aggregation.

In the event that the Firm determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a de minimis allocation in one or more accounts, the Firm may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

## **Item 13. Review of Accounts**

### **Account Reviews**

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Capitect monitors the end client portfolios on a continuous and ongoing basis while regular account reviews are conducted on at least a quarterly basis as determined by the financial advisors. Day-to-day monitoring will be automated using the Firm's technology. Edwin Choi will review generated reports. All end clients are encouraged to update their needs, goals and objectives with Capitect and to keep the Firm informed of any changes thereto. Financial advisors are responsible for ensuring that the end clients update their profiles as needed.

### **Account Statements and Reports**

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End clients are provided with transaction confirmation notices and regular summary account statements directly from the Financial Institutions where their assets are custodied. In addition, Capitect provides online access to interactive performance and asset allocation reporting. Capitect does not send the financial advisors or end clients fee invoices when withdrawing fees, but the Firm may make such available for financial advisors that are required to provide such to their end clients. Financial advisors and their end clients should compare the account statements they receive from their custodian with any documents or reports they receive from Capitect or an outside service provider.

**Item 14. Client Referrals and Other Compensation**

The Firm does not currently provide compensation to any third-party solicitors for client referrals.

**Item 15. Custody**

The Advisory Agreement and/or the separate agreement with any Financial Institution generally authorize Capitect to debit end client accounts for payment of the Firm's fees and to directly remit that those funds to the Firm in accordance with applicable custody rules. The Financial Institutions that act as the qualified custodian for end client accounts, from which the Firm retains the authority to directly deduct fees, have agreed to send statements to the end clients not less than quarterly detailing all account transactions, including any amounts paid to Capitect. Where required for financial advisors subject to state investment adviser regulations, Capitect can be requested to send end clients a written invoice itemizing the fee, including the formula used to calculate the fee, the time period covered by the fee and the amount of assets under management on which the fee was based.

In addition, as discussed in Item 13, Capitect makes reports available to clients. The financial advisors and their end clients should carefully review the statements sent directly by the Financial Institutions and compare them to those received from Capitect.

**Item 16. Investment Discretion**

Capitect may be given the authority to exercise discretion on behalf of end clients. Capitect is considered to exercise investment discretion over an account if it can effect and/or direct transactions in the accounts without first seeking consent. Capitect is given this authority through a power-of-attorney included in the agreement between Capitect and the financial advisor client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). Capitect takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold; and
- When transactions are made.

**Item 17. Voting Client Securities**

Capitect generally does not accept the authority to vote an end client's securities (i.e., proxies) on their behalf. The financial advisors or their end clients receive proxies directly from the Financial Institutions where their assets are custodied.

**Item 18. Financial Information**

Capitect is not required to disclose any financial information due to the following:

- The Firm does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance of services rendered;
- The Firm does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- The Firm has not been the subject of a bankruptcy petition at any time during the past ten years.