

Item 1: Wrap Fee Program Brochure  
March 2020



McGowan Group Asset Management,  
Inc.  
300 Crescent Court  
Suite #1776  
Dallas, TX 75201

Firm Contact:  
Ismael L. Sanchez, Chief Compliance Officer

Firm's Website Addresses:  
[www.themcgowangroup.com](http://www.themcgowangroup.com)  
[www.networthradio.com](http://www.networthradio.com)

This brochure provides information about the qualifications and business practices of McGowanGroup Asset Management, Inc. If you have any questions about the contents of this brochure, please contact by telephone at 214-720-4400 or email at [ismaels@themcgowangroup.com](mailto:ismaels@themcgowangroup.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any State Securities Authority.

Additional information about McGowanGroup Asset Management, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Please note that the use of the term "Registered Investment Adviser" and description of McGowanGroup Asset Management, Inc. and/or our associates as "registered" does not imply a certain level of skill or training. You are encouraged to review this Brochure and Brochure Supplements for our firm's associates who advise you for more information on the qualifications of our firm and its employees.

## Item 2: Material Changes to Our Part 2A of Form ADV: Firm Brochure

McGowanGroup Asset Management, Inc. (MGAM) is required to advise you of any material changes to our Firm Brochure ("Brochure") from our last annual update, identify those changes on the cover page of our Brochure or on the page immediately following the cover page, or in a separate communication accompanying our Brochure.

Below are the material changes that have occurred since our last annual amendment of March 2019.

- Since our last annual amendment filing on 03/30/2019, we have updated our total Assets Under Management (AUM) as of close 12/31/2019. This updated information is available under Item 4(E).
- MGAM moved offices 1/2020 from 200 Crescent Court, Suite 657 Dallas, TX 75201 to 300 Crescent Court, Suite 1776 Dallas, TX 75201.

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## Item 4: Advisory Business

We specialize in the following types of services: Fee Based Advisory Services and Investment Planning and Consulting.

A. We are dedicated to providing individuals and other types of clients with a wide array of investment advisory services. Our firm is a corporation formed in the State of Texas. Our firm has been in business as an investment adviser since 2010 and is wholly owned by Spencer McGowan.

B. Description of the types of advisory services we offer.

(i) Investment Planning & Consulting:

We provide a variety of investment planning and consulting services to individuals, families and other clients regarding the management of their financial resources based upon an analysis of client's current situation, goals, and objectives. Generally, such investment planning services will involve preparing an investment plan or rendering an investment consultation for clients based on the client's financial goals and objectives. This planning or consulting may encompass one or more of the following areas: Investment Planning, Retirement Planning, Estate Planning, Charitable Planning, Education Planning, Corporate and Personal Tax Planning, Cost Segregation Study, Corporate Structure, Real Estate Analysis, Mortgage/Debt Analysis, Insurance Analysis, Lines of Credit Evaluation, and Business Planning.

Our written investment plans or investment consultations rendered to clients usually include general recommendations for a course of activity or specific actions to be taken by the clients. For example, recommendations may be made that the clients begin or revise investment programs, create or revise wills or trusts, obtain or revise insurance coverage, commence or alter retirement savings, or establish education or charitable giving programs. It should also be noted that we refer clients to an accountant, attorney or other specialist, as necessary for non-advisory related services. For written investment planning engagements, we provide our clients with a written summary of their investment situation, observations, and recommendations. Implementation of the recommendations will be at the discretion of the client.

(ii) Fee Based Asset Management Services:

We offer wrap fee programs as further described in Part 2A, Appendix 1 (the "Wrap Fee Program Brochure") of our Brochure. Our wrap fee and non-wrap fee accounts are managed on an individualized basis according to the client's investment objectives, financial goals, risk tolerance, etc., based upon MGAM's multiple asset class, cash flow based, model investment portfolios.

In order to assist clients with allocation strategy, we typically gather information from the client about their financial situation, investment objectives, and, if the exception is made, reasonable restrictions they can impose on the management of the account. The client will be expected to notify us of any changes in his/her financial situation, investment objectives, or account restrictions that could affect their account.

C. Tailoring of Advisory Services

(i) Individual Tailoring of Advice to Clients:

We offer general investment advice to clients utilizing the following services offered by our firm: Fee Based Advisory Services and Investment Planning and Consulting

(ii) Ability of Clients to Impose Restrictions on Investing in Certain Securities or Types of Securities:

We generally do not allow clients to impose restrictions on investing in certain securities or types of securities due to the level of difficulty this would entail in managing their investment plans and administering their accounts. Exceptions to this rule can be made on a very limited case by case basis dependent on the complexity and specifics of the case.

D. Participation in Fee Based Advisory programs.

We offer wrap fee programs as further described in Part 2A, Appendix 1 (the "Wrap Fee Program Brochure") of our Brochure. Our wrap fee accounts are managed on an individualized basis according to the client's investment objectives, financial goals, risk tolerance, etc.

E. Our total AUM as of close 12/31/2019 is: Discretionary Assets: \$696,740,196 and Non-Discretionary Assets: \$35,782,201.

## Item 5: Fees and Compensation

We are required to describe our brokerage, custody, fees and fund expenses so you will know how much you are charged and by whom for our advisory services provided to you. Our fees are generally not negotiable.

A. Advisory Services Compensation

(i) Investment Planning & Consulting:

In the event clients wish to secure advanced customization and planning services outside of MGAM management and Pershing Custody, MGAM will oblige and charge a separate fee for those services. The total estimated fee, as well as the ultimate fee that we charge you, is based on the scope and complexity of our engagement with you. Our hourly fees are \$1,000 for investment planning and consulting.

(ii) Fee Based Advisory Services:

On an annualized basis, our firm's fee for continuous portfolio management services will range from .59% - 1.50% with the final fee negotiated according to the Clients' needs and objectives. Our firm's fees are billed quarterly in advance based on the value of the account on the last business day of the previous quarter. Accounts established during the billing cycle will be charged pro-rata based on the initial account balance.

## **MGAM Wrap Fee Schedule**

### **Single Tier Fee Schedule**

<u>Assets Under Management</u>	<u>Annual Advisory Fee</u>
\$0 - \$10,000,000+	_____ %

Additionally, clients also have the ability to further lower their management rate by consolidating assets. Discounted management rates are usually granted at the thresholds below:

Greater than 500K - .99%

Greater than 3MM - .88%

Greater than 10MM - .83%

The consolidation breakpoints above result in lower flat rates for all assets held with MGAM at Pershing BNY once the asset base surpasses the breakpoint levels. These rates and thresholds could change at any time upon the discretion of MGAM.

#### **B. How Clients Are Charged for Services**

##### **(i) Investment Planning & Consulting:**

We require a retainer of fifty-percent (50%) of the ultimate investment planning or consulting fee with the remainder of the fee directly billed to you and due to us within thirty (30) days of your financial plan being delivered or consultation rendered to you. In all cases, we will not require a retainer exceeding \$1,200 when services cannot be rendered within 6 (six) months.

##### **(ii) Fee Based Advisory fees are due quarterly in advance.**

We charge our advisory fees quarterly in advance and have them deducted direct via the custodian. In the event that you wish to terminate our services, we will refund the unearned portion of our advisory fee to you. To do this, you need to contact us in writing and state that you wish to terminate our services. Upon receipt of your letter of termination, we will start the process to close your account. The date of your written termination will be used to process a pro-rata refund of unearned advisory fees.

#### **C. Other Fees and Expenses in Addition to MGAM's Advisory Fee**

All clients are able to access statements and confirmations free of charge electronically, but if they elect to receive them physically they are assessed a charge per statement and per confirm by Pershing Advisor Solutions, LLC/ Pershing, LLC ("PAS" or "PAS/ Pershing"), our custodian. Typically, these charges are minor in nature and cover PAS's necessary costs to produce physical statements and confirms. Additionally PAS, as custodian, may charge additional fees associated additional services to include, but not limited to special order processing, wire transaction fees, UBIT accounting if necessary, hardcopy statement delivery, checking and debit card accounts services and lending services. A schedule of PAS charges is available upon request.

Wrap fee clients will not incur transaction charges for trades executed in their accounts. Additional costs can be incurred with MGAM pursues best net execution prices for orders placed on behalf of clients. MGAM does not receive or accept additional compensation from order processing. Clients pay additional management fees when MGAM believes that it is in the client's best interest to utilize an open end mutual fund or exchange traded fund. Client allocations that utilize mutual funds will incur additional costs above our wrap fee. MGAM does not receive or accept additional compensation from fund expenses.

D. Advisory Fees When Terminating Services

In the event that you wish to terminate our services, we will refund the unearned portion of our advisory fee to you. You need to contact us in writing and state that you wish to terminate our services. Upon receipt of your letter of termination, we will start the process to close out your account. The date of your written termination will be used to process a pro-rata refund of unearned advisory fees.

E. Commissionable Securities Sales

MGAM does not engage in commissionable securities sales at this time.

## Item 6: Performance Based Fees & Side by Side Comparisons

We do not charge performance fees to our clients.

## Item 7: Types of Clients & Account Requirements

We have the following types of clients:

- Individuals
- High Net Worth Individuals
- Trusts, Estates or Charitable Organizations
- Pension and Profit Sharing Plans
- Corporations, Limited Liability companies and/or other business types.

Our requirements for opening and maintaining accounts or otherwise engaging us:

- We require a minimum consolidation of \$500,000 within the first calendar year for our asset management service. Generally, this minimum account balance requirement is not negotiable and would be required throughout the course of the client's relationship with our firm.

DOL Conflict of Interest Rules and how it pertains to your IRA Accounts, IRA Rollovers, 401(k) accounts or other accounts covered under ERISA.

- (i) MGAM acknowledges our fiduciary status stated under Section 20(a)(b) of our Master Services Agreement (MSA).
- (ii) MGAM has/and will continue to abide by Standards of Impartial Conduct
  - a. Acting in the Client's best interest at all times (e.g. Prudence standards and Loyalty standards)
  - b. Receive reasonable compensation, under Item 5(A), that is fair and level.
  - c. Not making materially misleading statements to clients regarding recommendations, compensation or Conflict of Interests.

(iii) Any MGAM Conflicts of Interests will be disclosed in our ADV and ADV appendix.

## Item 8: Methods of Analysis Investment Strategies & Risk of Loss

### A. Methods of Analysis:

- Charting
- Fundamental
- Technical
- Cyclical

### Investment Strategies We Use:

- Long Term Purchases (Securities Held At Least a Year)
- Short Term Purchases (Securities Sold Within a Year)
- Trading (Securities Sold Within 30 Days)
- Short Sales
- Margin Transactions
- Option Writing, Including Covered Options, Uncovered Options or Spreading Strategies.

### Model Investment Portfolios We Use:

Below are descriptions of model investment portfolios offered by MGAM. These descriptions are meant to inform clients of the current types of portfolios we offer, but the information is subject to change, without notice, upon the decision of the MGAM investment committee.

#### 1. CashFlow Units®

The MGAM CashFlow Units discipline seeks to deliver high current income and capital appreciation above inflation. MGAM CashFlow Units seek to achieve its objective by selecting investments based upon current and estimated future cash flow from dividends and interest. The discipline may accomplish this across a variety of high cash flow yielding assets including, but not limited to:

- Mutual funds, managers or exchanged traded funds (including below investment grade bank loan and commercial paper)
- Exchange listed companies (including ADRs, GDRs)
- Money market funds

This discipline may experience exposure to the following risks: Market, Issuer/Credit, Reinvestment, Duration, Interest Rate, Call, and Liquidity. The benchmark for this portfolio is a blend of 50% of the S&P 500 (SPY) and 50% of the Barclays Aggregate Bond Index.

#### 2. Allocation Units

The MGAM Allocation Units discipline employs multiple asset class tactical allocation strategies based upon estimated forward returns including net portfolio income and potential capital appreciation. The discipline utilizes both fixed income and exchanged traded investments. MGAM Allocation Units seek to achieve the objective by selecting high income producing investments at attractive discounts to net asset or par value. The discipline may accomplish this across a variety of assets classes and categories including, but not limited to:

- Safety & Income: fixed maturity investments which may include tax exempt or taxable instruments; Money market funds
- High Cash Flow: fixed income mutual funds, managers or exchange traded funds (including below investment grade bank loan and commercial paper); debt of international or US corporations (including senior unsecured obligations)
- Growth with Income: individual equities, real estate investment trusts (REITs), master limited partnerships (MLPs), closed-end equity funds (CEFs)

This discipline may experience exposure to the following risks: Market, Issuer/Credit, Reinvestment, Duration, Interest Rate, Call, and Liquidity.

The benchmark for this portfolio is a blend of 67% S&P HY Dividend Aristocrats Index (SPHYDATR) and 33% of the S&P Municipal Bond Index (SAPIMAIN).

### 3. Long-Term Income Units

The MGAM Long-Term Income Units discipline seeks to deliver a high level of taxable or tax free coupon income through fixed maturity investments with a secondary objective of capital appreciation. MGAM Long-Term Income Units seek to achieve the objective by selecting primarily investment grade and high yield fixed maturity investments of various durations at attractive discounts to maturity/par value with current yields. The discipline may achieve this across a variety of fixed income assets including, but not limited to:

- Tax-exempt or taxable municipal bonds (both revenue and general obligations)
- Fixed income mutual funds, managers or exchanged traded funds (including below investment grade bank loan and commercial paper)
- US Treasuries
- Tax-exempt or taxable zero Coupon Bonds
- Money market funds
- Debt of international or US corporations (including senior unsecured obligations)

This discipline may experience exposure to the following risks: Market, Issuer/Credit, Reinvestment, Duration, Interest Rate, Call, and Liquidity.

The benchmark for this portfolio is a blend of 50% of the S&P Municipal Bond Index (SAPIMAIN), 25% of the Barclays Aggregate Bond Index and 25% of the S&P Taxable Municipal Bond Index (SPMUTT).

### 4. Growth Units

The MGAM Growth Units discipline seeks to provide long term capital appreciation for more aggressive investors. The Growth Units process is designed to identify companies at reasonable prices capable of delivering superior appreciation. The discipline includes, but is not limited to, flexible use of equity, debt instruments, warrants and options. Growth at a reasonable price is a discipline that estimates future revenue and profit streams versus current price multiples as part of the selection process. Tactical use of cash along with advisory recommendations on overall growth allocation size is included as part of the client review process.

This discipline may experience exposure to the following risks: Market, Liquidity, Price, Leverage and Tax.

The benchmark for this portfolio is the S&P 500 Pure Growth Index (SPXPG).

We generally invest client's cash balances in money market funds, FDIC Insured Certificates of Deposit, high-grade commercial paper and/or government backed debt instruments. Ultimately, we try to achieve the highest return on our client's cash balances through relatively low-risk conservative investments. In most cases, at least a partial cash balance will be maintained in a money market account so that our firm may debit advisory fees for our services related to asset management service, as applicable.

**Please Note:**

Investing in securities involves risk of loss that clients should be prepared to bear. While the stock market may increase and your account(s) could enjoy a gain, it is also possible that the stock market may decrease and your account(s) could suffer a loss. It is important that you understand the risks associated with investing in the stock market, are appropriately diversified in your investments, and inquire about any questions you may have regarding your investment plan or your account.

**B. Risks Involved With Investment Strategies and Model Portfolios Used By MGAM include, but are not limited to the following:**

- **Market Risk** - Also known as "systemic risk"; is the possibility to experience losses due to factors that affect the performance of the financial markets. This risk cannot be avoided, but its effects can be lessened through diversification. The risk that Recession will cause a decline in the financial markets as a whole is an example of market risk. Other examples include natural disasters, changes in interest rates and political unrest.
- **Bond Risk** - In general, bond prices rise when interest rates fall, and vice versa. This effect is usually more pronounced for longer-term securities. You may have a gain or loss if you sell a bond prior to its maturity date.
- **Municipal Bond Risk** - A portion of municipal bond's income may be subject to state or local taxes. A portion of a municipal bond's income may be subject to the federal alternative minimum tax.
- **Credit Risk** - The risk for bond investors that the issuer will default on its obligation (default risk) or that the bond value will decline and/or that the bond price performance will compare unfavorably to other bonds against which the investment is compared due either to perceived increase in the risk that an issuer will default (credit spread risk) or that a company's credit rating will be lowered (downgrade risk).
- **Duration Risk (Interest Rate Risk)** - The duration of a bond is a measure of its price sensitivity to interest rates movements, based on the average time to maturity of its interest and principal cash flows. Duration enables investors to more easily compare bonds with different maturities and coupon rates by creating a simple rule: with every percentage change in interest rates, the bond's value will decline by its modified duration, stated as a percentage. Modified duration is the approximate percentage change in a bond's price for each 1% change in yield assuming yield changes do not change the expected cash flows. For example, an investment with a modified duration of 5 years will rise 5% in value for every 1% decline in interest rates and fall 5% in value for every 1% increase in interest rates. Bond duration measurements help quantify and measure exposure to interest rate risks. Bond portfolio managers increase average duration when they expect rates to decline, to get the most benefit,

and decrease average duration when they expect rates to rise, to minimize the negative impact. The most commonly used measure of interest rate risk is duration.

- **Inflation Risk** - This is the risk that inflation will undermine the performance of your investment. Bonds are more susceptible to this type of risk due to their fixed income and possible long-term exposure to rises in inflation.
- **Asset Class** - This is a category or type of investment which has similar characteristics and behaves similarly when subject to particular market forces. Broad financial asset classes are stocks (or equity), bonds (fixed income) and cash. Real estate, precious metals and commodities can also be viewed as asset classes.
- **Total Return** - Investment performance measured over a stated time period which includes coupon interest, interest on interest, and any realized and unrealized gains or losses.

### **Item 9: Disciplinary Information**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

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

McGowan Publishing Co., Inc. ("MPC") owns the copyrights and trademarks related to NetWorth Radio and other investment publications including two prior books. Clients have purchased and or been provided copies of the two previous books. MPC has published two nationally recognized investment reference books and holds the copyrights for Spencer McGowan.

MPC owns the database of listeners utilized by our firm to solicit clients. Publications by Spencer McGowan that are available for sale would be published through MPC, a separate entity from our firm. Spencer McGowan is the majority owner of MPC.

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

- A. We recognize that the personal investment transactions of members and employees of our firm demand the application of a high Code of Ethics and require that all such transactions be carried out in a way that does not endanger the interest of any client. At the same time, we believe that if investment goals are similar for clients and for members and employees of our firm, it is logical and even desirable that there be common ownership of some securities.

Therefore, in order to prevent conflicts of interest, we have in place a set of procedures with respect to transactions effected by our members, officers and employees for their personal accounts. In order to monitor compliance with our personal trading policy, we have a quarterly securities transaction reporting system for all of our associates.

Furthermore, our firm has established a Code of Ethics which applies to all of our associated persons. An investment adviser is considered a fiduciary. As a fiduciary, it is an investment adviser's responsibility to provide fair and full disclosure of all material facts and

to act solely in the best interest of each of our clients at all times. We have a fiduciary duty to all clients. Our fiduciary duty is considered the core underlying principle for our Code of Ethics which also includes Insider Trading and Personal Securities Transactions Policies and Procedures. We require all of our supervised persons to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times. Upon employment or affiliation and at least annually thereafter, all supervised persons will sign an acknowledgement that they have read, understand, and agree to comply with our Code of Ethics. Our firm and supervised persons must conduct business in an honest, ethical, and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all clients. This disclosure is provided to give all clients a summary of our Code of Ethics. However, if a client or a potential client wishes to review our Code of Ethics in its entirety, a copy will be provided upon request.

- B. If our firm or a related person invests in the same securities (or related securities, e.g., warrants, options or futures) that our firm or a related person recommends to clients, we are required to describe our practice and discuss the conflicts of interest. In order to minimize this conflict of interest, our related persons will place client interests ahead of their own interests and adhere to our firm's Code of Ethics.
- C. If our firm or a related person recommends securities to clients, or buys or sells securities for client accounts, at or about the same time that they or a related person buys or sells the same securities for our firm's (or the related person's own) account, we are required to describe our practice and discuss the conflicts of interest it presents. In order to minimize this conflict of interest, our related persons will place client interests ahead of their own interests and adhere to our firm's Code of Ethics. Further, our related persons will refrain from buying or selling the same securities within the same day of buying or selling for our clients, unless all accounts trade together in a block trade.

## Item 12: Brokerage Practices/Prime Brokerage Services

### A. Selection of Broker-Dealers For Client Transactions

#### 1. Research and Other Soft Dollar Benefits.

Our firm has a clearing and custodial arrangement with PAS. Under the arrangement with PAS, MGAM may receive non-soft dollar services which include, among others, brokerage, custodial, administrative support, record keeping and related services that are intended to support our firm in conducting business and serving the best interests of our clients, but that may also benefit our firm. We reserve the right to utilize other custodians if determined to be in the best interests of our clients.

#### a. Prime Brokerage Services

Due to MGAMs affiliation with PAS, we are able to provide Prime Brokerage services to accounts that meet the minimum account balance requirement of \$100,000.00 and over. Typically these services include, but are not limited to, better margin rates, transaction rates, trade away capabilities and other traditional brokerage solutions.

As part of the arrangement described above, PAS may also make certain research and brokerage services available at no additional cost to our firm. These services include certain research and brokerage services, including research services obtained by PAS

directly from independent research companies, as selected by our firm (within specific parameters). Research products and services provided by PAS to our firm could include research reports on recommendations or other information about, particular companies or industries; economic surveys, data and analyses; financial publications; portfolio evaluation services; financial database software and services; computerized news and pricing services; quotation equipment for use in running software used in investment decision-making; and other products or services that provide lawful and appropriate assistance by PAS to our firm in the performance of our investment decision-making responsibilities. The aforementioned research and brokerage services are used by our firm to manage accounts for which we have investment discretion. Without this arrangement, our firm might be compelled to purchase the same or similar services at our own expense.

- b. As a result of receiving the services discussed above we may have an incentive to continue to use or expand the use of PAS' services. Our firm examined this potential conflict of interest when we chose to enter into the relationship with PAS and we have determined that the relationship is in the best interest of our firm's clients and satisfies our client obligations, including our duty to seek best execution.

PAS may charge transaction fees for effecting certain securities transactions (i.e., transaction fees are charged for certain no-load mutual funds or fixed income trades). PAS enables us to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. PAS transaction fees are generally discounted from customary retail transaction fee rates however, the transaction fees charged by PAS may be higher or lower than those charged by other custodians and broker-dealers.

- c. Our non-wrap fee program clients may pay a commission to PAS that is higher than other qualified broker dealers might charge to effect the same transaction where we determine in good faith that the commission is 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 broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although we will seek competitive rates, to the benefit of all clients, we may not necessarily obtain the lowest possible commission rates for specific client account transactions.
- d. We do not receive soft dollar benefits. Although the non-soft dollar investment research products and services that may be obtained by our firm will generally be used to service all of our clients.
- e. We are required to specifically describe to our clients the types of products or services that we are acquiring and to permit clients to evaluate possible conflicts of interest. Our description must be more detailed for products or services that do not qualify for the safe harbor in Section 28(e) of the Securities Exchange Act of 1934, such as those services that do not aid in investment decision-making or trade execution. Merely disclosing that we obtain various research reports and products is not specific enough. At this time we do not receive products or services that do not qualify for safe harbor.

In addition, PAS also makes available to our firm products and services that help manage and administer clients' accounts. These include software and other technology (and related technological training), that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of our fees from clients' accounts, and assist with back-office training and support functions, recordkeeping and client reporting. Many of these services generally may be used to service all or some substantial number of our accounts, including accounts not maintained at PAS.

While, as a fiduciary, our firm endeavors to act in our clients' best interests, Adviser's recommendation that clients maintain their assets in accounts at PAS may be based in part on the benefit to our firm of the availability of some of the foregoing products and services and other arrangements and not solely on the nature, cost, or quality of custody and brokerage services provided by PAS, which may create a potential conflict of interest.

- f. While we do not have soft dollar arrangements, all such arrangements would have to be approved in writing by our Chief Compliance Officer.

As a Fiduciary, we have an obligation to obtain "Best Execution" of clients' transactions under the circumstances of the particular transaction. Consequently, notwithstanding the safe harbor provided under Section 28(e), no allocation for soft dollar payment shall be made unless best execution of the transaction is reasonably expected to be obtained.

2. Our firm does not receive brokerage for client referrals.

### 3. Directed Brokerage

- a. Our firm currently custodies accounts at PAS and generally each client will be required to establish their account(s) at PAS. 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 broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although we will seek competitive rates, to the benefit of all clients, we may not necessarily obtain the lowest possible commission rates for specific client account transactions. Lastly, MGAM does reserve the right to utilize other custodians if determined to be in the best interest of our clients.

### **Special Considerations for ERISA Clients**

A retirement or ERISA plan client may direct all or part of portfolio transactions for its account through a specific broker or dealer in order to obtain goods or services on behalf of the plan. Such direction is permitted provided that the goods and services provided are reasonable expenses of the plan incurred in the ordinary course of its business for which it otherwise would be obligated and empowered to pay. ERISA prohibits directed brokerage arrangements when the goods or services purchased are not for the exclusive benefit of the plan. Consequently, we will request that plan sponsors who direct plan brokerage provide us with a letter documenting that this arrangement will be for the exclusive benefit of the plan.

- b. We do not allow client-directed brokerage outside of our managed accounts.
- c. We perform investment management services for various clients. There are occasions on which portfolio transactions may be executed as part of concurrent authorizations to purchase or sell the same security for numerous accounts served by our firm, which involve accounts with similar investment objectives. Although such concurrent authorizations potentially could be either advantageous or disadvantageous to any one or more particular accounts, they are affected only when we believe that to do so will be in the best interest of the effected accounts. When such concurrent authorizations occur, the objective is to allocate the executions in a manner which is deemed equitable to the accounts involved. In any given situation, we attempt to allocate trade executions in the most equitable manner possible, taking into consideration client objectives, current asset allocation and availability of funds using price averaging, proration and consistently non-arbitrary methods of allocation.

### Item 13: Review of Accounts or Financial Plans

- A. MGAM clients receive at least quarterly account reviews. The nature of these reviews is to learn whether clients' accounts are in line with their investment objectives, appropriately positioned based on market conditions, and investment policies, if applicable. Only our Financial Advisors or Portfolio Manager will conduct reviews.

Investment planning clients may not receive reviews of their written plans unless they take action to schedule an investment consultation with us. We do not provide ongoing services to investment planning clients, but are willing to meet with such clients upon their request to discuss updates to their plans, changes in their circumstances, etc.

- B. We may review client accounts more frequently than described above. Among the factors which may trigger an off-cycle review are major market or economic events, the client's life events, requests by the client, etc.
- C. We do provide account reviews to clients. Verbal reports to clients take place on at least an annual basis when we meet with clients who subscribe to our Advisory services. Additionally, Investment planning clients may not receive written or verbal updated reports regarding their investment plans unless they separately contract with us for a post investment plan meeting or update to their initial written investment plan.

### Item 14: Client Referrals & Other Compensation

- A. We may recommend that a client in need of brokerage and custodial services utilize PAS among others. It may be the case that the recommended broker charges a higher fee than another broker charges for a particular type of service, such as commission rates. Clients may utilize the broker/dealer of their choice and have no obligation to purchase or sell securities through such broker as our firm recommends.

In selecting a broker/dealer, we will endeavor to select those broker/dealers that will provide the best services at the lowest commission rates possible. The reasonableness of commissions is based on several factors, including the broker/dealer's ability to provide professional services, competitive commission rates, volume discounts, execution price negotiations, and

other services. When consistent with our firm's fiduciary duty of best execution, the firm will direct trades to any of the suggested broker/dealers listed above.

Some clients may instruct us to use one or more particular broker/dealers for the transactions in their accounts. Clients who may want to direct our firm to use a particular broker/dealer should understand that this might prevent us from effectively negotiating brokerage compensation on their behalf. This arrangement may also prevent us from obtaining the most favorable net price and execution. Thus when directing brokerage business, clients should consider whether the commission expenses, execution, clearance, and settlement capabilities that they will obtain through their broker/dealer are adequately favorable in comparison to those that our firm would otherwise obtain for our clients.

We may receive research and execution related services from PAS to assist our firm in managing its accounts. These services and products would include financial publications, pricing information and other products or services. Such research and execution related services are offered to all investment advisers who utilize these firms. However, the commissions charged by these parties may be higher than those charged by a broker who does not provide the aforementioned research and execution related services.

B. We do not pay referral fees for client referrals.

#### Item 15: Custody

Custody is defined as having any access to client funds or securities. Because MGAM generally has the authority to instruct the account custodian to deduct the investment management fee directly from the client's account, MGAM, may be viewed for regulatory purposes, as having "custody" of client assets. This limited access is monitored by the client through receipt of account statements directly from the custodian. These statements all show the deduction of the management fee from the account. Additionally MGAM, in conjunction with PAS, has taken steps to ensure, per SEC guidance, that we do not claim or retain inadvertent custody of client funds or securities by the following:

- MGAM retains records showing that third party disbursements are not related parties of MGAM or located at the same address as MGAM.
- PAS has adopted policies that prevent the inadvertent transfer of custody to MGAM by limiting MGAM's access to determine, change or authorize disbursement of funds or securities from a client's account without specific client authorization. The necessity of client authorization extends to changes regarding, amounts, contra parties and timing of any funds or securities transmissions and any instruments used to facilitate their movement.

When clients receive their statements from the account custodian, clients should carefully review those statements and take the time to compare them with those they receive from MGAM. If the client finds significant discrepancies, the custodian and MGAM should be notified.

### Item 16: Investment Discretion

We accept discretionary authority to manage client accounts. Our clients must sign a discretionary investment advisory agreement with our firm for the management of these types of accounts. This type of agreement only applies to our Wrap Asset Management clients and occurs when a prospective client decides to open an account with MGAM. We do not take or exercise discretion with respect to our other clients.

### Item 17: Voting Client Securities

- A. Generally, MGAM does not vote on proxies unless there is an aggregate value over \$1,000,000.00 on the Record Date of each proxy request. This allows MGAM to effectively manage the multitude of proxy requests we typically receive while providing a streamlined process that permits diligent research of the proxy item while at the same time allowing us to administer our fiduciary responsibility. When we have discretion to vote the proxies that meet our criteria, we will vote those proxies in your best interests and in accordance with MGAM's policies and procedures. Clients may request a copy of our written policies and procedures regarding proxy voting and/or information on how particular proxies were voted by contacting our Chief Compliance Officer by phone at 214-720-4400 or email at [ismaels@themcgowangroup.com](mailto:ismaels@themcgowangroup.com).
- B. In the event that clients elect to vote their proxies, MGAM is available to assist the client in contacting PAS to ensure delivery of their individual proxy material. Additionally, MGAM is available for consultation regarding proxy material.

### Item 18: Financial Information

We do not require nor do we solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. Therefore, we have not included a balance sheet for our most recent fiscal year. We have never been the subject of a bankruptcy petition at any time.