



## **Disclosure Brochure**

March 30, 2020

# **Shepherd Financial Investment Advisory, LLC**

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This brochure provides information about the qualifications and business practices of Shepherd Financial Investment Advisory, LLC, a registered investment adviser. If you have any questions about the contents of this Disclosure Brochure, please contact us at 844-975-4015. The information in this Disclosure Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Registration with the SEC or state regulatory authority does not imply a certain level of skill or expertise.

Additional information about Shepherd Financial Investment Advisory, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Material Changes**

There are no material changes from the brochure dated March 30, 2020.

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## Advisory Business

Shepherd Financial Investment Advisory, LLC ("Shepherd," "we" or "us") is an Indiana limited liability company owned by Shepherd Financial Holdings, LLC ("Holdings"). Holdings is primarily owned by Steven Wylam, Thomas Mayer, Andrew Denny, and David Shepherd. We have been providing investment advisory services since September 2017. We provide advisory services and consulting to ERISA-qualified and non-qualified retirement plan clients.

### ERISA-Qualified Plans

Shepherd either serves as the plan's investment adviser under Section 3(21) of the Employee Retirement Income Security Act of 1974 ("ERISA") (in which case we will recommend investments for approval by the plan's named fiduciaries), or as the plan's investment manager under ERISA §3(38) (in which case we will manage the plan's investments on a discretionary basis). For plans with participant-directed accounts, we may provide advice or management on the investment options available to the plan's participants. When we provide these services, we work with the plan's named fiduciaries to evaluate the demographics of the plan's participants to select investment options that are appropriate for their retirement needs based upon ERISA §404(c)'s requirement that participant-directed retirement plans offer a "broad range" of investment options. The plan's named fiduciaries may impose restrictions on the types of investments that may be held by, or offered through, the plan, and those guidelines are typically referenced in the plan's investment policy statement.

We also offer additional services to our retirement plan clients, including assisting the plan's named fiduciaries with drafting the plan's investment policy statement, selecting an appropriate qualified designated investment alternative, investment manager search, selection, due diligence and monitoring, fiduciary training, fee benchmarking analysis, and investment education / engagement, financial wellness and enrollment services for the plan's participants.

The asset allocation and mutual fund recommendations we give to plan clients may differ from those we give to our high-net-worth and affluent individuals and institutions because, among other reasons, a participant's asset allocation target typically consists of a smaller number of asset categories to reflect the relatively smaller size of the participant's investment assets; or the sponsor has constrained the investment alternatives from which we may make recommendations. In such cases, we may be required to observe quantitative criteria established by the sponsor in preparing participant-oriented lists of mutual funds, or to confine the advice given to choices among a relatively narrow set of investment alternatives established by the sponsor. Participants are informed when the plan sponsor imposes constraints on our ability to recommend mutual funds or other securities.

### Discretionary Asset Management

When we provide discretionary asset management services, we receive a limited power of attorney to effect

securities transactions for our clients that include securities and strategies described under "*Methods of Analysis, Investment Strategies & Risk of Loss*" below. Our discretionary asset management services are predicated on the plan's investment mandate or investment policy statement.

### Assets Under Management

As of December 31, 2019, Shepherd has \$1,677,802,289 in non-discretionary assets under management, and \$22,160,814 in discretionary assets under management.

## Fees & Compensation

### ERISA Qualified Plans

We charge either on a percentage of assets in the retirement plan or as a flat amount. These fees are negotiable and vary greatly based upon the size of the plan and the services we provide. Retirement plan clients may decide whether the fees will be paid directly by the plan sponsor or deducted from plan assets. Because our fees are often paid by the plan's custodian, the custodian usually determines whether our fee will be paid in advance or in arrears. However, if the plan sponsor pays our fee directly, the parties may negotiate when those payments will be due. Under ERISA §408(b)(2), we and other vendors providing services to the plan must disclose all direct and indirect compensation they will receive in exchange for the services they provide to a retirement plan. We disclose the services we will provide and the fee we charge for those services in the written agreement with the retirement plan's sponsor.

Our advisory fee does not include any applicable taxes; confirmation fees for trades; custodial fees; brokerage commissions; transaction fees; charges imposed directly by a mutual fund, index fund, or ETF (as disclosed on the fund's prospectus); fees imposed by variable annuity providers (as disclosed in the annuity contract); certain deferred sales charges; odd-lot differentials; transfer taxes; wire transfer and electronic fund fees, as well as other fees imposed upon brokerage accounts and securities transactions. The plan's administrator is required to provide participants with a disclosure of the costs associated with the investment options offered under the plan, such as mutual fund internal expenses, under ERISA §404(a)(5).

### Payment of Fees

Our advisory fees are either paid directly by the client or disbursed to us by the qualified custodian, subject to the client's prior written consent. The custodian will deliver directly to the client an account statement, at least quarterly, showing all investment and transaction activity for the period, including fee disbursements from the account. A client's investment advisory agreement may be canceled by either party upon 30 days' prior written notice. Upon termination, any unearned, prepaid fees will be promptly refunded and any earned, unpaid fees will be immediately due and payable.

We generally require clients to authorize the direct debit of fees from their accounts. For directly debited fees, the

custodian's periodic statements will show each fee deduction from the account. Clients may withdraw this authorization for direct billing of these fees at any time by notifying us or their custodian in writing. The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation.

### **Additional Charges**

Our fees for investment advisory services are separate and distinct from the fees and expenses charged by ETF, mutual funds, pooled investment vehicles, broker-dealers, and custodians retained by clients. Such fees and expenses are described in each ETF and mutual fund's prospectus, each separate account manager's Form ADV and Brochure and Brochure Supplement or similar disclosure statement, each pooled investment vehicle's offering memoranda, and by any broker-dealer or custodian retained by the client. Clients are advised to read these materials carefully before investing. A client may be precluded from using certain mutual funds or separate account managers because they may not be offered by the client's custodian.

### **External Compensation for the Sale of Securities to Clients**

With respect to Plan clients, Shepherd Financial advisors receive fee based compensation. Please see "*Other Financial Industry Activities & Affiliations*" below for detailed information and conflicts of interest regarding other sources of compensation.

## **Performance-Based Fees & Side-by-Side Management**

We do not charge performance-based fees and therefore we have no economic incentive to manage clients' portfolios in any way other than what is in their best interests.

### **Types of Clients**

We provide advisory and management services to 401(k), 403(b), 457, profit sharing, cash balance, and pension plans for private and publicly-held companies, charitable organizations, and governmental entities. We do not require a minimum account size, but may impose a minimum annual fee.

## **Methods of Analysis, Investment Strategies & Risk of Loss**

### **Methods of Analysis & Investment Strategies**

We use a variety of sources of data to conduct our economic, investment and market analysis, such as financial newspapers and magazines, economic and market research materials prepared by others, conference calls hosted by mutual funds, corporate rating services, annual reports, prospectuses, and company press releases. It is important to keep in mind that there is no specific approach to investing that guarantees success or positive returns; investing in securities involves risk of loss that clients should be prepared to bear.

We and our IARs are responsible for identifying and implementing the methods of analysis used in formulating investment recommendations to clients. The methods of analysis may include quantitative methods for optimizing client portfolios, computer-based risk/return analysis, technical analysis, and statistical and/or computer models utilizing long-term economic criteria.

- Optimization involves the use of mathematical algorithms to determine the appropriate mix of assets given the firm's current capital market rate assessment and a particular client's risk tolerance.
- Quantitative methods include analysis of historical data such as price and volume statistics, performance data, standard deviation and related risk metrics, how the security performs relative to the overall stock market, earnings data, price to earnings ratios, and related data.
- Technical analysis involves charting price and volume data as reported by the exchange where the security is traded to look for price trends.
- Computer models may be used to derive the future value of a security based on assumptions of various data categories such as earnings, cash flow, profit margins, sales, and a variety of other company specific metrics.

We may employ outside vendors or utilize third-party software to assist in formulating investment recommendations.

Our investment strategies are custom-tailored to the client's goals, investment objectives, risk tolerance, and personal and financial circumstances.

### **Mutual Funds, Third-Party Separate Account Managers & Pooled Investment Vehicles**

We may recommend (i) no-load mutual funds; (ii) individual securities such as ETFs; and (iii) pooled investment vehicles such as collective investment trusts. We may also assist the client in selecting one or more appropriate managers for all or a portion of the client's portfolio. Such managers will typically manage assets for clients who commit to the manager a minimum amount of assets established by that manager—a factor that we will take into account when recommending managers to clients.

We have formed relationships with third-party vendors that provide a technological platform for separate account management; prepare performance reports; perform or distribute research of individual securities; and perform billing and certain other administrative tasks.

We may utilize additional independent third parties to assist us in recommending and monitoring individual securities, mutual funds, managers and pooled investment vehicles to clients as appropriate under the circumstances.

We review certain quantitative and qualitative criteria of mutual funds and managers and to formulate investment recommendations to our clients. Quantitative criteria may include the performance history of a mutual fund or manager evaluated against that of its peers and other benchmarks; an analysis of risk-adjusted returns; an

analysis of the manager's contribution to the investment return (e.g., manager's alpha), standard deviation of returns over specific time periods, sector and style analysis; the fund, sub-adviser or manager's fee structure; and the relevant portfolio manager's tenure. Qualitative criteria used in selecting/recommending mutual funds or managers include the investment objectives and/or management style and philosophy of a mutual fund or manager; a mutual fund or manager's consistency of investment style; and employee turnover and efficiency and capacity.

Quantitative and qualitative criteria related to mutual funds and managers are reviewed by Shepherd on a quarterly basis or such other interval as appropriate under the circumstances. In addition, mutual funds or managers are reviewed to determine the extent to which their investments reflect efforts to time the market, or evidence style drift such that their portfolios no longer accurately reflect the particular asset category attributed to the mutual fund or manager by Shepherd (both of which are negative factors in implementing an asset allocation structure).

We may negotiate reduced account minimum balances and reduced fees with managers under various circumstances (e.g., for clients with minimum level of assets committed to the manager for specific periods of time, etc.). There can be no assurance that clients will receive any reduced account minimum balances or fees, or that all clients, even if apparently similarly situated, will receive any reduced account minimum balances or fees available to some other clients. Also, account minimum balances and fees may significantly differ between clients. Each client's individual needs and circumstances will determine portfolio weighting, which can have an impact on fees given the funds or managers utilized. We endeavor to obtain equal treatment for our clients with funds or managers, but cannot assure equal treatment.

We regularly review the activities of mutual funds and managers selected for clients. Clients that engage managers or who invest in mutual funds should first review and understand the disclosure documents of those managers or mutual funds, which contain information relevant to such retention or investment, including information on the methodology used to analyze securities, investment strategies, fees and conflicts of interest. Similarly, clients qualified to invest in pooled investment vehicles should review the offering memoranda or other disclosure materials relating to such vehicles before making a decision to invest.

### **Material Risks of Investment Instruments**

We may recommend open-end mutual funds and ETFs for the vast majority of our clients. In addition, for certain clients, we may also invest in equity securities.

*Equity Securities:* Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e.,

increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

*Mutual Funds:* Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

*ETFs:* ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs®, streetTRACKS®, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup>, iShares®, and VIPERS®. We could purchase an ETF to gain exposure to a portion of the U.S. or foreign market. Clients, as a shareholder of the ETF, will bear their pro-rata portion of the ETF's advisory fee and other expenses. Investing in ETFs involves risk. Specifically, an ETF, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral. Further, the use of leverage (i.e., employing the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

## **Disciplinary Information**

Not applicable.

## **Other Financial Industry Activities & Affiliations**

Our owners and IARs are registered representatives of Lincoln Investment, a FINRA-registered broker-dealer and member of SIPC. Also, members and IARs are investment advisory representatives of Lincoln Investment or Capital Analysts, an SEC-registered investment adviser. As a result, such professionals, in their capacity as registered representatives of Lincoln Investment, are subject to the oversight of Lincoln Investment and the FINRA. As such, clients should understand that their personal and account information is available to FINRA and Lincoln Investment

personnel in the fulfillment of their oversight obligations and duties.

In certain circumstances, our IARs who effect transactions for advisory clients may receive transaction or commission compensation from Lincoln Investment. The recommendation of securities transactions for commission creates a conflict of interest in that the IAR is incented to effect securities transactions for clients. Although we strive to put our clients' interests first, such recommendations may be viewed as being in the best interests of the IAR rather than in the client's best interest. Our clients are not compelled to effect securities transactions through Lincoln Investment.

Shepherd Insurance, LLC is an affiliate of Shepherd. Our clients may be referred to Shepherd Insurance for insurance products and we may receive a finder's fee for doing so. This creates a conflict of interest in that there is an economic incentive to recommend insurance and other investment products of such carriers. Other than for insurance products that require a securities license, such as variable insurance products, clients may utilize any insurance carrier or insurance agency they desire. For products requiring a securities and insurance license, clients may be limited to those insurance carriers that have a selling agreement with Lincoln Investment.

## **Code of Ethics, Participation or Interest in Client Transactions & Personal Trading**

### **Code of Ethics Description**

We have adopted policies and procedures designed to detect and prevent insider trading. In addition, we have adopted a Code of Ethics (the "Code"). Among other things, the Code includes written procedures governing the conduct of Shepherd's advisory and access persons. The Code also imposes certain reporting obligations on persons subject to the Code. Applicable securities transactions are monitored by our chief compliance officer. We will send clients a copy of the Code upon request.

We have policies and procedures in place to help ensure that the interests of our clients are given preference over ours, our affiliates and employees. For example, we have policies in place to prevent the misappropriation of material non-public information, and such other policies and procedures reasonably designed to comply with federal and state securities laws.

### **Purchase of Securities Recommended to Clients & Conflicts of Interest**

Shepherd, its affiliates, employees and their families, trusts, estates, charitable organizations and retirement plans established by it (collectively, the "Firm Affiliates") may purchase the same securities as are purchased for clients in accordance with the Code. Firm Affiliates' personal securities transactions may raise potential conflicts of interest when they trade in a security that is owned by the client, or considered for purchase or sale for the client.

Such conflict generally refers to the practice of front-running (trading ahead of the client), which we specifically prohibit. We have adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures—

- require Firm Affiliates to act in the client's best interest;
- prohibit fraudulent conduct in connection with the trading of securities in a client account;
- prohibit employees from personally benefitting by causing a client to act, or fail to act in making investment decisions;
- prohibit the firm or its employees from profiting or causing others to profit on knowledge of completed or contemplated client transactions;
- allocate investment opportunities in a fair and equitable manner; and
- provide for the review of transactions to discover and correct any trades that result in a Firm Affiliate benefitting at the expense of a client.

Firm Affiliates must follow our procedures when purchasing or selling the same securities purchased or sold for a client.

Firm Affiliates may buy securities for their own accounts that differ from those recommended or effected for our clients. We will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in Firm Affiliate accounts. Trades executed the same day will likely be subject to an average pricing calculation. Our policy is to place the clients' interests above ours and our employees.

## **Brokerage Practices**

Clients may select the record keeper, custodian and/or broker dealer of their choice unless restricted by one of the investment managers selected to manage all or a portion of the client's assets.

## **Review of Accounts**

Accounts are reviewed by our Director of Investments and our Registered Investment Advisors Representatives. The frequency of reviews is determined based on the client's investment objectives, but reviews are conducted no less frequently than quarterly.

We may perform ad hoc reviews on an as-needed basis if there have been material changes in Client Information, or a material change in how we formulate investment advice. The client's independent custodian provides account statements directly to the client no less frequently than quarterly. The custodian's statement is the official record of the client's securities account and supersedes any statements or reports we create for a client.

## **Client Referrals & Other Compensation**

We have an agreement with our affiliate, Shepherd Insurance, under which we may refer advisory clients and

receive a finder's fee of 35% of the first year's revenue. There is a potential conflict of interest in that there is an economic incentive to recommend insurance and other investment products offered through our affiliate by various insurance carriers with which our affiliate has a selling agreement. Clients may choose the provider of their choice

We may, in some circumstances, compensate third-party solicitors ("Solicitors") for client referrals. In general, a Solicitor is compensated by a percentage of the advisory fee collected for a limited period time specified in the agreement between us and the Solicitor. The client pays no additional fee for the referral over and above our advisory fee; to the contrary, our fees are reduced by the amount of the compensation to a Solicitor. A client who is solicited will receive a separate Solicitor's Disclosure Statement describing the arrangement in detail.

## **Custody**

Clients receive at least quarterly account statements directly from their custodian containing a description of all activity, cash balances and portfolio holdings in the client's account. Clients are urged to review the custodian statement for accuracy. Any discrepancies should be brought to the firm's attention. The custodian's statement is the official record of the account.

## **Investment Discretion**

Clients may grant us a limited power of attorney respecting trades for their accounts by signing the appropriate custodian limited power of attorney form. In those cases, we will exercise full discretion as to the nature and type of securities to be purchased and sold, and the amount of securities for such transactions. Investment limitations may be designated by the client as outlined in the investment advisory agreement.

## **Voting Client Securities**

We do not take discretion with respect to voting proxies on behalf of clients. We endeavor to make recommendations to clients on voting proxies regarding shareholder vote, consent, election or similar actions solicited by, or with respect to, issuers of securities in client accounts. Except as required by applicable law, we will not be obligated to render advice or take any action on behalf of clients respecting assets presently or formerly held in their accounts that become the subject of any legal proceedings, including bankruptcies. From time to time, client account securities will be the subject of class action lawsuits. We have no obligation to determine if securities held by a client are subject to a pending or resolved class action lawsuit. We have no duty to evaluate a client's eligibility or to submit a claim to participate in the proceeds of a securities class action settlement or verdict. Furthermore, we have no obligation or responsibility to initiate litigation to recover damages for clients who may have been injured as a result of actions, misconduct, or negligence by corporate management of issuers whose securities are held by clients. Where we receive written or electronic notice of a class action lawsuit, settlement, or verdict affecting securities owned by a client, we will forward all notices, proof of claim forms, and other materials to the client. Electronic mail is acceptable where appropriate and where the client has authorized contact in this manner.

## **Financial Information**

Not applicable.